

Edwin R. A. Seligman

Essays in Taxation

Mevickar Professor of Political Economy
Columbia University

Edwin R. A. Seligman
Essays In Taxation
Eighth Edition
Completely Revised And Enlarged
The Macmillan Company
London: Macmillan & Co., Ltd. 1913
Copyright 1895
By Macmillan and Co.

Digital edition 2023
By grundskyld.dk

Contents

Preface to the Eighth Edition 5

Contents 6

Chapter I—The Development of Taxation 7

Chapter II—The General Property Tax 25

 American Bibliography of the General Property Tax. 70

Preface to the Eighth Edition

This book was originally published in 1895, and the favor with which it was received has rendered necessary a new edition every two or three years. Owing partly to the pressure of other occupations and partly to a shrinking from the arduous labor which would have been required to keep the presentation up to date, these successive editions contained but slight changes. Now however, after the lapse of almost eighteen years, the progress of the world, both in fiscal facts and in economic theory, has been so marked as to render any further delay impossible if the book is to remain a half-way satisfactory interpretation of actual conditions.

I therefore determined to subject the volume to a careful revision and, where necessary, to rewrite entire sections or even chapters. Moreover, in the interval, not a few of my addresses and articles on germane topics have appeared; and it seemed opportune to incorporate a selection from these into the book, even at the risk of some inevitable repetition in a few pages here and there. As a consequence, the thirteen chapters of the earlier editions have grown to twenty-one; and this together with the additions to the remainder of the work has resulted in a volume of almost double the size of the original. To a large extent, therefore, the present edition may be regarded as a substantially new work.

To recount here the names of the many friends who have assisted me in various ways in the preparation of this volume would be impossible. But I desire to make especial mention of Mr. A. C. Pleydell, the secretary of the New York Tax Reform Association, who has been good enough to read the entire proof of this edition, and to favor me with many suggestions out of the abundance of his rich experience in practical tax reform.

Edwyn R. A. Seligman.

Columbia University, New York, March, 1913.

Contents

Chapter I—The Development of Taxation

- I. Voluntary and Compulsory Payments
- II. Direct versus Indirect Taxation
- III. The Forms of Direct Taxation .
- IV. Changes in the Basis of Taxation

II—The General Property Tax

- I. Practical Defects
- II. History of the Property Tax in Antiquity
- III. Early Mediaeval History of the Property Tax
- IV. Later Mediaeval and Modern History of the Property Tax
- V. Theory of the Property Tax
- VI. Conclusion

To be issued:

Chapter III—The Single Tax

- I. What is the Single Tax'
- II. The General Theory
- III. Practical Defects
 - 1. Fiscal Defects
 - 2. Political Defects
 - 3. Ethical Defects
 - 4. Economic Defects, (a) Effect on poor communities, (h) On farmers; (c) On rich communities;
- IV. Conclusions

Chapter I—The Development of Taxation

To the citizen of the modern state, taxation, however disagreeable it maybe, seems natural. It is difficult to realize that it is essentially a recent growth and that it marks a comparatively late stage in the development of public revenue; it is more difficult to realize that each age has its own system of public revenue, and that the taxes of to-day are different from those of former times; it is still more difficult to perceive that our ideals of justice in taxation change with the alteration in social conditions. Not only the actual forms of taxation, but the theories of taxation as well, vary with the economic basis of society. Fiscal conditions are always an outcome of economic relations. This is true even where the direct influence of political causes is traceable, for political changes are in the last resort dependent on economic changes. Finance and economics are inextricably intertwined. Like all the facts of social life, taxation itself is only an historical category.

I. Voluntary and Compulsory Payments

At the beginning of history there is no such thing as a state. Whether we accept Hobbes' theory of the *helium omnium contra omnes*, or the more modern clan theory of the origin of society, there is no public household, because there are no recognized public needs. But even in the original man there are possibilities of social development, Man, as Aristotle tells us, is a social and political animal. Centuries of hard experience strengthen the social instinct and contribute to form primitive society, until finally a real political life emerges.

Gradually from either physical, ethical or religious causes a leader evolves. The oldest or the wisest or the bravest—at all events, the one possessed of some peculiar characteristic—becomes the leader of the horde, the clan or the tribe. He acts as the great priest, great judge or great warrior, often combining all three qualities. There are no financial needs, because the only consideration is that of defence; and every man contributes to the defence in his own person. The leader himself subsists on the booty of war.

But with the growth of society and the expansion of the clan into the larger community, the public needs develop. Administration begins. Roads, bridges and fortifications are constructed, and the prince

or king must now not only maintain order, but must be assured of a revenue to support his household and to distribute favors to his retinue. All his followers, being roughly equal, now support him by gifts, whether of labor or of property. In all primitive societies voluntary offerings constitute the first form of common contributions, and every man feels the necessity of upholding the political and military organization by his own personal efforts.

The king's needs now increase. They are chiefly personal needs, except in so far as expenditures are made for the purposes of internal peace and external defence. But in order to ensure his position, the king endeavors to secure his revenues elsewhere. He develops the subsidies and tributes of the allied and conquered nations, and amasses treasure filched from abroad. Part of this he distributes among his followers; part he retains to increase his own possessions. The private property of the king differentiates itself from the public property, which was originally common to all. The monarch now increases his revenues and domains through the acquisition of lucrative prerogatives of all kinds. Certain activities come to be looked upon as within his peculiar province. The king's peace must be kept—any infraction must be paid for in fines and penalties; not only crimes, but torts, have their public side. Nobody can harm an individual without breaking the king's peace, and having to pay for it. Commerce begins, and weights and measures and money are needed. The royal rights of coinage arise; and as the kingship becomes stronger, the rights of escheat, of wreck, of confiscation develop, until finally the various royal prerogatives bring in a substantial revenue.

Voluntary payments have in the meantime ceased. As society advances, what was at the outset freely given comes to be paid by the individual from a sense of moral obligation. But with the weakness of human nature, in the face of a diversity of interests, even the feeling of duty soon fails to produce an adequate revenue. The moral obligation slowly becomes a legal obligation, keeping pace with the crystallization of social usage and custom into primitive law; the voluntary offerings become compulsory contributions. But the compulsory contributions are still largely personal services, connected with the common security. Such was the early mediæval *trinoda necessitas*, the liability to military service, to watch and ward, and to

the repair of the bridges and fortifications. The first forced contribution of the individual to the maintenance of the common welfare is always seen in this rude attempt to assess every one according to his ability to bear the common burden—his faculty. This faculty consists in the enforced participation in the administration. But there is not yet any idea of taxation of property. The contribution is personal, and is limited to a few well-defined objects. The individual's faculty is found in his person, not in his property, because there is practically no private property. And the contributions are, for the most part, not regular, but spasmodic.

As civilization gradually advances, private property develops, and the primitive equality slowly disappears. The interchange of commodities takes place on a larger scale. The old revenues are no longer adequate, and it becomes necessary for the monarch to supplement them by broadening the field of these compulsory contributions of service. In other words, the need of taxation arises. But a direct tax is still out of the question. Public opinion will not yet admit its necessity. The taxation of property is scarcely less impossible than the taxation of the person. It is regarded as a badge of disgrace for the freeman—a *nota captivitatis*, as the Romans at first called it—because only conquered enemies have to pay this arbitrary impost. The king, therefore, must endeavor to effect his object covertly. He must go to work in a roundabout way, and hide the tax in a variety of disguises. He either gradually extends his lucrative prerogatives, or alleges that the charges are simple returns for governmental services. He grants protection or privileges to individuals, and requires some payment in return. Thus begins the period of fees and charges, which the individuals are willing to pay and which gradually reconcile the public to the idea of governmental charges.

Before long, however, the monarch feels able to throw off all disguises, and limits the amount of his exactions only by the degree of his rapacity. Thus the fees and tolls change into taxes on exchange and transportation; thus the people become accustomed to the "customs"; thus the "evil duties" and the excises grow apace; thus the payments become veritable "impositions." In other words, the community enters upon the stage of indirect taxation.

This explains why it is so difficult for the idea of direct taxation to force its way into popular favor. The earliest manifestations of the

taxing power are generally merciless and brutal. They are apt to react on the public consciousness and to stunt the growth of any feeling of obligation. It is not until public morality has so far developed as to introduce more lenient and more refined processes of indirect taxation that we discover a growing willingness on the part of the individual to pay direct taxes. Another reason for the later appearance of direct taxation is that the indirect taxes are often paid without the contributors being really conscious of it. They are jealous of their own and not public-spirited. They are willing to give only that the loss of which they do not feel. But whatever be the reason, it is clear that when this final stage—possible only after centuries of laborious and continued exertion—has been reached, we enter upon a new phase in the history of finance. The readiness to share in the public burdens out of one's property presupposes a far higher social ethics and a far more complex society than was possible in the simple conditions when every one was willing to take part in the defence of the village or the repair of the roads. Interests have now become specialized. It needs a far greater sense of civic obligation to submit cheerfully to direct property taxation than was necessary in primitive times for the putting forth of mere personal exertions. Even to-day the full import of this obligation is only inadequately grasped. Until within a few years it was deemed necessary to base the theoretical justification of taxation on fanciful doctrines of contract, of protection and the like. And even at the present time, those who cheerfully seek to contribute their share to the common burden form the exception, not the rule. But even the imperfect recognition of this duty implies a highly developed political consciousness. The method of taxing every one according to his property is the first rough attempt of a property-owning community (as over against a primitive community) to assess each member according to his relative ability. The introduction of the direct property tax is a vast step forward in the development of social ethics.

This historical process is well illustrated by etymology. If we look at the various terms applied to what we to-day call a tax, we shall find every shade of the development reflected not only in the words used in former centuries, but in those still employed to-day. There are no less than seven different stages in this etymological growth.

The original idea was that of gift. The individual made a present to the government. We see this in the mediæval Latin term *donum* and in the English *benevolence*, which was used far into the middle ages. The second stage was reached when the government humbly implored or prayed the people for support. This is the meaning of the Latin *precarium*, used for many centuries on the continent, as well as of the German *Bede* (from *beten*, to pray). The *Landbede* was the term applied to the land tax in the German states until quite recently. With the third stage we come to the idea of assistance to the state. The individual felt that, if not making a gift, he was at least doing the government a favor. This idea is expressed in the Latin *adjutorium*, the English *aid* and the French *aide*, which was at one time used for all kinds of taxes. The same idea is discernible in the English *subsidy* and *contribution*. It has survived in the German term for a tax, *Steuer* (*steuern*, to help), and in the Scandinavian *hjelp*. In France *contribution* is even to-day commonly used as synonymous with tax.

The fourth stage of development brings out the idea of sacrifice by the individual in the interest of the state. He now surrenders something for the public good. This is seen in the old French *gabelle*, in the modern German *Abgabe*, and in the familiar *Italian dazio*. In each case the citizen gives or sacrifices something. With the fifth stage the feeling of obligation develops in the taxpayer. The English duty was not originally restricted to its present narrow meaning in the United States. Here it is usually applied to import taxes and sometimes to the internal revenue taxes. But even to-day in England the term includes some of the most important so-called direct taxes, like the inheritance tax and the income tax. It is not until the sixth stage is reached that we meet the idea of compulsion on the part of the state. We see this in our impost or imposition, as well as in the French *impot* and the Italian *imposta*. Although we limit the term to a certain kind of tax, the French use it as the generic epithet *par excellence*. The same idea is seen in the German *Auflage* (something "laid on") and *Aufschlag* (something "clapped on"), frequently used at present for certain indirect charges on commodities.

With the seventh and final stage we reach the idea of a rate or assessment, fixed or estimated by the government without any reference to the volition of the taxpayer. We see this in the mediæval English *scot* (to be "at scot and lot"), which is nothing but the Ger-

man *Schoss* or the Scandinavian *skatt*. It is seen in the German *Schatzung* (or estimate), which was used until about a century ago. Above all, it is recognized in our tax (*taxare*, to fix, to estimate), the French *taxe*, the Italian *tassa* and the English *rate*. It is worthy of note that in the middle ages "tax" always meant a direct tax, for which a regular assessment list or schedule was made.

II. Direct versus Indirect Taxation

With the introduction of direct taxation, the progressive increase of public revenues becomes far easier. This is fortunate, for with the advance of civilization the public expenditures grow apace. For a long time, as we have seen, almost the only aims of government are security and defence. But as economic conditions develop and various classes of society differentiate, more attention must be paid to matters of general welfare. Expenditures for commerce, industry and transportation arise. The need is felt for better roads, for more canals, for improved methods of communication through the postal service. Then the less material ends of government are recognized. Education must be provided, hospitals and asylums must be erected, and the sanitary conditions must be looked after. Finally comes the immense growth of the modern state, with its new functions due partly to the industrial revolution, partly to the growth of democracy, partly to the recognition in legislation of the preventive as against the repressive principle. These new functions mean fresh expenditures; and these expenditures mean increased taxes. Thus the characteristic mark of the modern age is taxation as against the more or less self-sufficing public economy of former times.

Direct taxation, as we have seen, generally forms the last step in the historical development of public revenues. At first regarded entirely as an extraordinary means of support, it gradually assumes the character of an ordinary form of revenue. In the early days of classic antiquity the direct tax was used only in very exceptional exigencies and was, in fact, regarded as a compulsory loan, to be repaid in the future. It was not until after the establishment of the Roman Empire, for instance, that the regular direct taxation of Roman citizens began. And the same process may be observed throughout the history of many mediaeval states down to the most recent period of European and American history.

In some cases, however, this historical process assumes a slightly different form. It depends entirely on the economic conditions and on the relative importance of the various social classes. For instance, it is incontrovertible that certain kinds of indirect payments always come first, as has been explained above. But when the people understand that indirect charges on commodities increase their price and thus form veritable taxes, it sometimes happens that more opposition is shown to indirect than to direct taxation. In such cases direct taxes furnish the ordinary revenue, and it is only after a severe struggle that indirect taxes are introduced.

This process can be clearly traced in the history of mediaeval and modern revenue. In democratic communities, where the legislation is influenced by the mass of the people, we commonly discern a tendency to oppose indirect taxes on consumption. In the early mediaeval towns the democratic instincts were strong, because of the more equal distribution of property. We accordingly find that the revenue system was based largely on direct payments, and that the populace rebelled against indirect imposts. But on the continent, where aristocratic influences gradually became powerful enough to break down the communal liberty and democracy, the mass of the people were ground down by taxes on the necessities of life, while the wealthier or governing classes practically escaped. When the democratic upheaval took place, as in the Italian towns, we find an attempt to reintroduce the old order of things and to reach the wealthy by a system of direct taxes. But with the downfall of the mediaeval democracy, the property and income taxes disappeared, while the *octroi* and municipal indirect taxes again came to the front. Only in England, where the democratic instincts maintained themselves somewhat more strongly, and where the powder of the aristocracy was held in check by a strong monarchy, do we find continued opposition to the general excises and to local taxes on the necessities of life. It was with the greatest difficulty that the excise system was introduced. And the same feeling was awakened under similar conditions on the other side of the Atlantic, when Hamilton initiated his system of indirect taxation or internal revenue in the federal fiscal system of the United States. "The time will come," said one of the members of Congress in 1790, "when the poor man will not be able to wash his shirt without paying a tax." With the advent of the modern democ-

matic state, we notice the same tendency. Indirect taxes, says Lassalle, are taxes on labor. Hence the efforts of modern democracy in England, in Switzerland and in America to confine indirect taxes on consumption and exchange within the narrowest limits.

On the other hand, there is a counter-tendency which has frequently been overlooked. Curious as it may seem, indirect taxes were advocated in the later middle ages as the means of introducing not inequality, but equality, of taxation. This was owing to the fact that the privileged classes on the continent had succeeded in securing virtual immunity from taxation. The nobles were largely exempted from the land tax, while the clergy and the wealthier citizens in general were able to a large degree to purchase freedom from the tax burdens. What was more natural than that the statesmen and tax reformers should attempt to make them pay something through taxes on their expenditure, which they could not well escape? Their plan, it is true, no longer took the shape simply of taxes on the necessities of life; it was now expanded into the single tax on all expense which would reach the rich as well as the poor. This was the idea of Colbert; and it has been the idea from the time of Hobbes and Petty of all enthusiasts for indirect taxation in England, and of many writers in Germany, in France and in Italy. To-day we are clamoring for the abolition of indirect taxation; formerly the reformers clamored for a single universal indirect tax. The explanation, as we see, is simple.

But this does not yet answer the question why excise taxes were actually introduced into England, as elsewhere, in the seventeenth century. The fact is that tax reformers cannot do much good if economic conditions are not ripe for their proposals. It must be confessed that according to the experience of history most reforms, in finance at least, are due to selfish reasons; they are the necessary outcome of changes in economic relations and of the efforts of each class, whether it be the small or the large class, to gain some advantage for itself. The classic home of the excise tax or indirect tax on business and trade is Holland. It is well known that Holland, during the sixteenth and seventeenth centuries, had become the leading financial and trading nation of Europe. In the other countries wealth was still centered in the landed interests, and the whole system of taxation was largely dominated by feudal aristocratic ideas. The direct taxes were land taxes, because wealth consisted chiefly of land;

but the landed proprietors sought to escape the burden by assessing real property as low as possible and by putting taxes on the necessities of life of the poorer classes. In Holland, on the other hand, wealth was now largely centered in the moneyed interest. The great traders and merchants did not relish any direct taxation of trading capital, and therefore devised a system of indirect taxation of business which would, as they thought and hoped, be shifted to the community in general, and to the poorer classes in particular. Thus developed the stamp taxes, the excise taxes, and the whole host of indirect taxes for which Holland was noted.

The seventeenth century marks the rise of the trading class in England; "the glorious revolution" was a revolution not so much of the people as of what the Socialists love to call the "bourgeois." Puritanism and commercialism went hand in hand,¹ and the downfall of the Stuarts not only put an end to feudalism, but weakened the fiscal ascendancy of the landowner—an ascendancy to which another serious blow was given by the abolition of the Corn Laws, and whose final overthrow in England, as elsewhere, is fast approaching. The indirect taxes of the seventeenth century were thus the outgrowth of the effort on the part of the commercial classes to escape the burdens which the landowners were desirous of placing on them. The selfish designs of the capitalists and the unselfish ideas of the tax reformers went hand in hand to widen the scope of indirect taxes. And as the trading class developed in the other countries, the system of excise spread with it.² It was not until the democratic movement of the nine-

¹ This aspect of Puritanism has more recently been studied in detail by Professor Max Weber in a series of suggestive articles "Die protestantische Ethik und der 'Geist' des Kapitalismus" in the *Archiv für Sozialwissenschaft und Sozialpolitik*, vols. xx and xxi (1905).

² A word may be said, in passing, about our present attitude toward indirect taxes. There is a prodigious amount of cant on this topic. Many thinkers are apt to make common cause with the socialists and the single-taxers in demanding the complete abolition of the so-called indirect taxes. This is a mistake. There is nothing inherently bad about an indirect tax, nor is there anything inherently good about a direct tax. It depends entirely upon what kind of direct or indirect tax it is. A direct tax on the laborer is not necessarily good because it is direct; an indirect tax on the luxury of the rich is not necessarily bad because it is indirect. It happens, indeed, that most of the indirect taxes of the past have been devised by the powerful in order that their burden might fall on the weak; but it is by no means impossible to frame a system of

teenth century, when the system of excises was recognized as a burden on the poorer classes, that the number of commodities subject to excise was gradually reduced.

III. The Forms of Direct Taxation

"We have seen the economic relations which condition the interworking of direct and indirect taxation. Let us now endeavor to learn how these economic conditions affect the growth of direct taxation itself.

In primitive society, there is a certain rough equality in the personal status and the personal abilities of the individual. Hence the idea of the poll or capitation tax, which is the first rude manifestation of the equities of taxation. The members of a club to-day pay equal dues, because their interests are supposed to be equal. Club life does not cover the whole of human activity, but only a very small portion of it. So, in the same way, as long as economic conditions are primitive, the social obligations of the members of the clan or the state are conceived to be equal. But as the social conscience develops, more stress is laid on other elements of ability to pay than on mere number. Not only do men differ in strength, in mental vigor and in opportunities, but inequality of possessions grows greater. And with differences in property, the old feeling of equal obligation weakens. The poll tax becomes unjust and is gradually abolished. A certain phase of this primitive feeling sometimes persists for a long time, especially in democracies where political equality is still based on the fiction, of economic equality. We find poll taxes as adjuncts to other taxes long after the justification of a single poll tax has disappeared. But it has now assumed a political significance, as in Switzerland and in some of the American commonwealths, where its payment is made a condition of the suffrage. Even this tends to become a farce to the extent that the payment of the tax is assumed by the political parties. The economic basis of the poll tax has entirely vanished and it tends to be replaced by the property tax.

The first property taxes are entirely in harmony with the facts of early industrial life. It is a matter of common knowledge that the early period of almost every civilization is marked by two chief facts,

taxes on consumption which will supplement other taxes and do substantial justice to all. The elaboration of this point must be reserved for another place.

the preponderance of agriculture and the existence of slavery. As Rodbertus has pointed out,¹ this leads to a fundamental distinction between ancient and modern economic theories. In modern civilization we have not only a quantitative division in wealth, but also a qualitative difference. That is, not only are there rich and poor, but there are landowners, capitalists, employers and laborers. In early civilization there was a quantitative but no qualitative distinction in wealth. Property consisted chiefly of land and the landowner's household, including slaves and beasts of burden. There was no important capital—or at all events, no industrial capital—apart from this landed property, and hence there were no distinct shares in distribution. But Rodbertus errs in predicating of Greece in general and designating by the Greek name an economic system which is characteristic of all early civilizations. It was as true of the slave-holding states in the American Union, and of the mediæval manorial system, as it was of the early Hellenic civilization. Wherever we find only agriculture and slavery, there we have this inseparable mass of collective property, not yet split up into its constituent parts.

The importance of this for finance lies here: since we have only this general collective property, and since this property consists practically of land and the means to till the land, the direct property tax must take the shape either of the land tax or of the tax on the cattle or slaves or implements used in agriculture. These are practically tantamount to each other. For the produce of two given portions of land will vary about in proportion to the value of the land, together with the amount of slaves and cattle necessary to till it. Everywhere at first, therefore, the direct property tax is found to be either the land tax or the tax on agricultural capital.² It is the only practicable and the only just form of taxation at this early period.

It is, however, important to notice that the property which is now taxed is not so much property in land as property in the produce of land. Whether we have the primitive village community or only the system of common cultivation, the earliest private property consists

¹ "Untersuchungen auf dem Gebiete der Nationalökonomie des klassischen Alterthums," in Hildebrand's *Jahrbücher für Nationalökonomie und Statistik*, iv., p. 343 et seq.

² In some of the early mediæval tax systems, these were specifically termed cattle and land taxes. So the *Vieh- und Klauensteuer* in Germany.

of the produce of the soil. The first attempt, therefore, to take account of the gradations in the tax-paying ability of the individual is seen in the tax on gross produce—the tithe, or any other portion of the produce, or on mere quantity of the land irrespective of value. Since land itself is not private property, since land is not bought or sold, the faculty of the taxpayer can be measured not by the value of the land, but by the value of its produce, which is in some proportion to the quantity of the land. Moreover, in early agriculture, where tilling is extensive and where expenses of cultivation vary but little, the tax on gross produce is a fairly accurate test of ability to pay.

With the advance in population and the necessity of more intensive agricultural methods, owing to the decay of the primitive communal system and the growth of private property in land, it becomes possible to measure the productivity of land in terms of property. Thus the land taxes of this newer stage of culture are property taxes, even though the value of the property is fixed sometimes according to selling value, sometimes according to arbitrary estimates of quality. But where the survivals of primitive conditions are strong, the value is still measured in terms of yield or produce, either actual or computed. In the early middle ages, for instance, land taxes were not based directly on the selling value, because, although land was private property, it was not bought or sold. The lands had rental value, but no selling value, and the tax was assessed not so much on the market value as on the produce of land. When the American colonies were founded, private property in land was well established and the land taxes there very soon became property taxes, although we not infrequently find examples of the taxation of gross produce rather than of property.¹ With the progress of cultivation and the advance in population, the tax on gross produce is supplanted by the property tax on market value.

But now comes a change in the forms of economic life—a change that inevitably produces an effect on the public conscience and on the accepted ideas of justice. In the first place, with increasing prosperity we find a gradual increase in the simpler kinds of personal property. The landowner's family gradually accumulates money,

¹ For details see the article on "Income Taxes in the American Colonies," *Political Science Quarterly*, vol. x. (ISO), pp. 233, 234. This is reprinted in Seligman, *The Income Tax*, 1911, part ii, chap. i.

clothing, and luxuries. If the general property tax is still to continue a fair evidence of individual ability to pay, personal property must be taken up into the assessment lists. And this, in fact, everywhere occurs. Not only the real estate, but also the growing personal estate, is now regarded. At first this personalty consist of tangible, visible objects not easily concealed, and constituting a fair index of the citizen's prosperity. The existence of this scanty stock of personalty will, however, still be in harmony with the early economic system. It is still the landowner who owns the personal property, and it is fitting that there should still be only the general property tax. The economic system has not yet materially altered.

The next change, however, inaugurates a widely different stage. The primitive family group or manorial system decays. Slavery is gradually broken down by manumission or abolition. The commercial instinct grows stronger, and trade is no longer limited to the interchange of superfluities between adjacent households. What Aristotle decries as the gainful pursuits become common occupations. Capital develops and free laborers appear. The original undifferentiated mass of property splits up into separate parts. The landlord is no longer the property lord. Personal property, in the shape both of productive capital and of unproductive wealth, increases at a continually accelerating ratio. Finally, as in our modern industrial system, the movables outrank the immovables. Realty is completely overshadowed by personalty, in both extent and influence. *1

Now begins the contest between the landed and the moneyed interest, between rent and profit. The landowners in mediaeval times, like the farmers in our own time, vainly attempt to expand the original property tax so as to include all these new forms of property. The capitalist and moneyed class either seek to shift the burden by devising the indirect tax of which we have spoken above, or they attempt to escape the burden entirely through evasion or through lax administration of the property tax. Where the differences in wealth become striking and the lower classes are politically powerless, the landed proprietors and the traders combine to throw the burden on the agricultural laborers and the urban artisans, although they may still struggle between themselves as to the division of the remainder of the burden. Where aristocratic conditions prevail less strongly, as in America up to the present time, the laborer fares better, but the con-

test between the farmer and the city resident assumes a more acute form. The history of modern taxation is largely the history of these class antagonisms.

IV. Changes in the Basis of Taxation

In the meantime the test or standard of individual ability has itself undergone a change. With the growing differentiation of society, the productive powers of the various classes themselves differ. Moreover, there are now many forms of earnings which are derived not from property, but from industry. And since it is difficult to capitalize industry, it is the product of the industry which now becomes of importance. But there is a decided difference between this new system of taxes on product, and the original system which preceded the first property tax. In the original system the tax was on gross produce or on mere quantity of land. The land tax was either the tithe or some definite part of the estimated produce. Now the tax is on net produce. Allowance is made for expenses of cultivation. Two pieces of land may yield the same amount, and yet the outlay in the one case may have been considerably more than the other. To take net, instead of gross, product marks another step forward in the evolution of the idea of ability to pay. In a state of complete mobility of capital and labor, it perhaps makes no difference whether we take the market value or the net product of a piece of property; for the selling price of property tends to equal the capitalized value of the revenue derived therefrom. But in actual life, where we often find limitations to this absolute mobility, there may be a divergence between the capitalized value of the produce and the actual value of the property. Thus we find almost everywhere a movement to replace the property tax by a system of taxes on net product—on the product of land, of capital, of business, of labor, etc. This was the stage reached in Europe toward the end of the eighteenth and the beginning of the nineteenth century.

Relatively good as this system was, it was soon seen not to be entirely satisfactory. It failed to respond to modern economic conditions. It looked at the produce of the source of industry, rather than at the recipient of the earnings; it was a tax on things, rather than on persons; it abstracted from the personal situation of the taxpayer; it made no allowance for indebtedness. Just as the tax on gross produce was defective because it paid no attention to expenses of cultivation, so the tax on net produce, while in itself an improvement, was never-

theless faulty because it paid no attention to what may be called the personal expenses of cultivation, i.e. the interest on indebtedness.

Thus it is that in recent decades the tendency has arisen to substitute personal taxes for the older real taxes, and to assess the individual rather than the thing; or, stating it in simpler language, to put revenue or income in the place of proceeds or earnings as the test of taxation. Just as a man's ability to support himself or his family is seen in his income or revenue, so, in the same way, it is recognized that the test of a man's ability to support the state is to be found in this same income or revenue. From the modern point of view, it is the duty of the citizen to support the government according to his capacity to support himself. Income or revenue may not, indeed, be an ideal test;¹ for there is no absolute test which can exactly gauge all the varying personal circumstances of each individual. But it is the best workable test that governments can secure, and it is in harmony with the test imposed on the individual by the force of social opinion in regard to his duty to his own family. For this reason modern states are everywhere changing their revenue systems, so that the taxes shall correspond, as nearly as possible, to the revenues of the citizens. But precisely because the income tax is a personal rather than an impersonal tax or a tax on things, it involves administrative difficulties and presupposes an advanced stage of social morality and political probity. Where this stage has not yet been reached, it may be better to continue the system of taxes on product which form a very rough approximation to the revenue of the taxpayer, than to attempt a system of income taxes which strive to reach the revenue more closely. Furthermore, as we shall see in a subsequent chapter, there are certain considerations which militate against the exclusive adoption of individual faculty as the all-controlling norm of taxation. But whatever may be the momentary demand of expediency, or the influence of countervailing considerations, the line of development is evident, and the ultimate result must necessarily harmonize with the facts of economic and social relations.

Let us test the theory of development as laid down in the above pages by a reference to the history of taxation in America. It is well

¹ For some of the difficulties connected with the theory of the income tax see Seligman, *The Income Tax*, 1911, Introduction, §4, et seq.

known that the primitive revenues of the colonies were composed largely of voluntary payments, of subsidies or allowances from abroad, of quit-rents, and of occasional fees and fines of early justice. But it has usually been overlooked that when the voluntary offerings turned into compulsory contributions, the tax systems in the various colonies were quite different.

The New England colonies were democratic communities where almost every one owned some land, and where the distribution of property was fairly equal. We therefore find as a characteristic mark of New England, in addition to the primitive poll tax, the tax on the gross produce of land either actual or computed according to the quantity or quality of the land. This slowly grew into a real property tax, which soon expanded into what was nominally a general property tax. And this itself was supplemented by a tax on town artisans and others who subsisted on the produce not of their property, but of their exertions. To the property tax was now added the "faculty" tax.¹

In the Southern colonies, which were aristocratic in their economic substratum, the land tax played an insignificant role, because the large landowners naturally objected to bearing the burdens. After the introduction of slavery it became difficult to retain even the poll tax, which when laid on slaves is practically a property tax on the slave owner. Hence we see a system of indirect taxes, mainly on exports and imports, falling with special weight on the poorer consumers.

Finally, in the middle colonies, above all in New Netherlands, the conditions were neither democratic nor aristocratic. There was no such approach to equal distribution of wealth as in New England, and no such preponderance of the landed interest as in Virginia. We find the dominance of the moneyed interest or of the trading classes, who brought with them Dutch instincts and Dutch methods. Accordingly, there was no system of poll and property taxes as in New England, and no system of indirect taxes on exports and imports as in Virginia. The fundamental characteristic of this system was the introduction of the excise system or indirect taxation of trade, which was borrowed from Holland, just as we find the excise system introduced from

¹ For details as to the American "faculty" taxes, see Seligman, *The Income Tax*, 1911, pp. 367 et seq.

Holland into England and the other European countries during the seventeenth century. Each section, therefore, had a fiscal system more or less in harmony with its economic conditions. It was not until these conditions changed during the eighteenth century that the fiscal systems began somewhat to approach each other; and it was not until much later that we find throughout the country a general property tax based not on the produce, but on the market value, of the property.

The same divergence of economic conditions explains what is to-day the most marked distinction in the United States between the fiscal systems of the North, the South and the West. In the Southern states up to the civil war, the interests of the large landed proprietors were still dominant. Under the federal constitution, it was impossible for them to levy import or export duties. For a time, therefore, land, as the only source of wealth, had to defray the public charges. In the absence of industrial centres, there was little opportunity for taxation of personal property. As the need of increased revenues was felt, the landed interests attempted to secure this revenue from the few ordinary occupations carried on outside of the farms and estates. In other words, the license or privilege system was established, which levied a fixed charge on well-nigh every occupation. It was not until after the middle of the century that the general property tax was introduced; but even to-day the license or privilege taxes yield a large share of the public revenue.

In the Northern states, on the other hand, where the business interests were more powerful, the license or privilege system never attained such a firm foothold. But with the breakdown of the general property tax, the attempt of the general public to secure a taxation of the moneyed interests has taken the form of taxation of corporations and of capital. There are plainly visible the beginnings of a system of taxation of net product. Finally, in the Western states, where the economic conditions are as yet more primitive, there have been only sporadic attempts to alter the general property tax, which there is still to a great extent a tax on real estate. But with the gradual unification of economic conditions, which is slowly taking place throughout the entire country, we may expect that the systems of taxation will become more nearly uniform, until the results of modern industrial and democratic development will finally appear here, as they are appear-

ing in other parts of the world. The recent attempt to introduce a federal income tax, however defective the measure may have been, is a significant evidence of the trend. That this attempt will ultimately be followed by others, not necessarily precisely similar, but yet indicative of the same general movement, is by no means improbable.

From the above survey one fact stands out prominently. Amid the clashing of divergent interests, and the endeavor of each social class to roll off the burden of taxation on some other class, we discern the slow and laborious growth of standards of justice in taxation, and the attempt on the part of the community as a whole to realize this justice. The history of finance, in other words, shows from one point of view, at least, the evolution of the principle of faculty or ability in taxation—the principle that each individual should be held to help the state in proportion to his ability to help himself. In the earliest indirect payments there was no idea of equity, but only of force. But with the advance of civilization and social ethics, we reach the first stage of rude equality in the poll tax. Step by step the revenue system advanced to successively higher planes. Expenditure, property, product—each of these in turn was considered the test of individual capacity and obligation toward the state; until finally in modern times revenue or income has come to be regarded as the most equitable and the most practicable measure of individual and social faculty. To arrange a system of taxation a large part of which at least shall, on the whole, correspond as closely as possible to the net revenues of individuals, and which shall take into account the variations in tax-paying ability, has thus become a demand of modern civilization. But unless this system is in harmony with the external structure and the internal conditions of modern economic life, it is foredoomed to failure. If the history of taxation teaches any one lesson, it is that all social and moral advance is the result of a slow process and that while fiscal systems are continually modified by the working out of ethical ideals, these ideals themselves depend for their realization upon the economic forces which are continually transforming the face of human society.

Chapter II—The General Property Tax

There is perhaps no single feature of our modern tax system that is commonly thought to be more thoroughly American than the general property tax. The proportional taxation of all property is held to be the result of an instinctive feeling original to and thoroughly ingrained in the minds of the American people. And yet it may be said that few institutions have evoked of late more angry protests and more earnest dissatisfaction than this very tax. The reason is plain. As long as prosperity was general and the public expenses were small, taxation was light and its burden was scarcely felt. But during the last few decades, with the complicated demands of modern civilization, public expenditures, both local and national, have increased to such an extent as to exert a sensible pressure on the population. The problems of public revenue have been pushed to the front. The expressions of discontent with various phases of the financial system have become numerous and loud. But for the most part the discussion has been superficial and the conclusions reached have been inadequate.

The opponents of the general property tax have confined themselves to a portrayal of its practical shortcomings. No one has hitherto attempted to give the deeper reasons why the property tax is unsuited to the present generation, or to discuss the subject in its wider relations to the science of finance. It is proposed in this chapter to show that the property tax is by no means original to America, but that it has gone through precisely the same evolution in many other places. It is further proposed to prove that the property tax is as destitute of theoretical justification as it is defective in its practical application. And it is proposed, finally, in subsequent chapters, to discuss the reforms of our direct taxation—some of them partly completed, some projected, and some hitherto neglected.

I. Practical Defects

The defects of the general property tax may be treated under five heads.¹

¹ In a monograph by the present writer entitled *Finance Statistics of the American Commonwealths* (Publications of the American Statistical Association, Dec. 1889) may be found a large number of citations from the commonwealth financial reports

1) *Lack of uniformity, or inequality of assessment.* The property tax with us is an apportioned, not a percentage tax. According to the latter method, the tax would be levied on the individual by means of a fixed percentage of all property. According to the actual method, the total amount to be raised by the state is first ascertained and is then apportioned to the various subdivisions according to the appraised valuation in each. The final rate of taxation throughout a state is obtained by adding the local tax to the state tax. The rate of taxation ought therefore to vary only with the local needs, and would indeed so vary if property were everywhere assessed uniformly. As an actual fact, however, this is far from being the case. In most of the commonwealths the tax laws provide for the assessment of property at its "fair cash value." And in all the states it is expected that the valuation shall everywhere be made at a uniform rate. Yet it is a notorious fact that in scarcely any two contiguous counties is the property—even the real estate—appraised in the same manner or at the same rate. In regard to the manner, it frequently happens that corporation property, e.g. the roadbed of a railway, is assessed in one county at an immense sum per mile and is treated in the adjacent county like a piece of grazing land.¹ In regard to the rate, the assessors follow the practice sanctioned by local usage, or decide by mere caprice. The official reports abound with complaints or open confessions that property is assessed all the way from par to one twenty-

for the preceding year. The reader is referred to that publication for the verification of statements for which no special authority is adduced in these pages. See especially pp. 401-417. Many facts and figures may also be found in Ely, *Taxation in American States and Cities*, 1887. See also, for some striking statistics, T. G. Shearman, *Taxation of Personal Property, impracticable, unequal and unjust*, 1895.

For the two decades that have elapsed since this chapter was originally written, facts in abundance testifying to the defects of the general property tax will be found in most of the official state reports on taxation. See chap. XX, below. Cf. also the valuable articles and addresses in the (five) *Reports of the Conferences of The National Tax Association*, 1907-1911 (Columbus, 1908-1912). See especially the "Report of the Committee on Causes of Failure of General Property Tax" in the Fourth Conference, Columbus, 1911, pp. 299-310. At the second conference the name of the organization was changed to International Tax Association, but at the fifth conference the original name was resumed.

¹ In New York, for example, two adjoining counties made a difference of \$24,000 per mile in assessing the same railroad. Other counties varied \$20,000 per mile. Report of the State Assessors, 1879, p. 19.

fifth of the actual value. In one county the property is listed at its full worth; in the next county the assessment does not exceed a tithe of its value.¹ That this is a glaring infraction of the fundamental rule of equality in taxation is apparent. As between counties it leads to under-valuations which give an entirely fallacious view of the public resources; as between individuals it results in gross injustice. A tax rate of a given amount on one may be double, quintuple, or decuple the nominally equivalent tax on another. The first constitutional injunction—that of uniformity of taxation—is flagrantly violated. Assessors are compelled openly to disregard their oaths, or to incur certain defeat at the next election.² There is no pretence of complying with the law.

An escape from these evils has been sought in the creation of boards of equalization. A number of commonwealths³ have attempted to correct the undervaluation of the county officials by giving a state board power to alter the valuations (or in some cases, as Nebraska, the rates) in the hope of securing uniformity. In a few states, like New York, Ohio, Tennessee, Utah and Wyoming, the power extends only to the equalization of real estate assessments. In some cases, the board may charge the valuation of classes of property separately, and in still fewer instances, like Connecticut, Indiana, Maine, New Hampshire and South Carolina, the assessment of minor districts. But in most cases its function is confined to the

¹ *Biennial Report of the Auditor of Public Accounts of Nebraska*, 1886, p. 4. In New York the range is from 100 to 18 per cent. *Report of the State Assessors*, 1883, p. 3. In Illinois the range is from 100 to 5 per cent. *Report of the Revenue Commission of Illinois*, 1886, p. ii.

² *Report of the Assessors of New York*, 1886, p. 20. The report for 1884, p. 4, speaks of the assessors' open "intent to ignore the law." In one case an assessor objected to a certain declaration, and asserted that it would be necessary to swear the merchant. The latter answered: "If you swear me, I'll vote against you next time." *West Virginia Tax Commission*, Preliminary Report, 1884, p. 13.

³ State boards of equalization are found in Arizona, California, Connecticut, Idaho, Illinois, Indiana, Iowa, Kansas, Kentucky, Colorado, Maine, Michigan, Minnesota, Missouri, Montana, Nebraska, North Dakota, New Hampshire, New Jersey, New Mexico, New York, Ohio, Oklahoma, Pennsylvania, South Carolina, South Dakota, Tennessee, Utah, Washington, West Virginia, Wisconsin and Wyoming. Alabama, Arkansas and Oregon have tax commissions with equalizing powers. In some states the boards of equalization have to deal only with the assessment of corporate property.

equalization of county assessments, while county boards deal with the assessments of local districts, and ordinarily also have power of review over the assessments of individuals.¹ In several cases, while these may raise, they may not reduce, the aggregate as returned by the local assessors; in other cases their power extends only to real estate; in still other cases they may raise or lower the assessment of separate classes of property as well.

The efforts of both state and county boards, however, have been very imperfectly successful. The composition of the boards is such as to render any comprehensive scrutiny of the county returns almost impossible. Even were the boards to be ideally constituted, the local jealousies and bickerings would still continue to prevent any just distribution of the burdens.² The officials themselves confess that such distribution cannot be secured under the present system.³ Boards of equalization are thus at best mere makeshifts,—clumsy attempts to accomplish the impossible. As it has been drastically put: "A people cannot prosper whose officers either work or tell lies. There is not an assessment roll now made out in the state that does not both tell and work lies."⁴ As long as this is true, boards of equalization are of little avail.

¹ County boards of equalization exist in most of the states, even when state boards are unknown. Thus in Delaware, Florida, Maryland, Mississippi, Nevada and Texas there are county boards, but no state boards. On the other hand, in Connecticut, Maine, New Hampshire and West Virginia there are state boards but no county boards. Finally in Georgia, Louisiana, Massachusetts, Vermont and Virginia, there are neither state nor county boards. For details see Carl C. Plehn, *Revenue Systems of State and Local Government*, in the *Twelfth Census Report on Wealth, Debt and Taxation*, Washington, 1907, p. 629 et seq. In the above statement the facts have been brought down to date [1912].

² "The strife between counties to reduce assessments has not ceased and in all probability will not, as long as assessors are elected, or selfishness be a passion in the human breast." *Report of the California State Board of Equalization*, 1885 and 1886, p. 4.

³ "No board of officials, however diligent or however conversant they may be with the subject, can make an equalization which to themselves will be absolutely satisfactory." *Annual Report of State Assessors of New York*, 1887, p. ii. From ocean to ocean the same complaint is found.

⁴ M. I. Townsend, in *Proceedings and Debates of the Constitutional Convention of New York*, 1867-68, iii., p. 194.5. Cf. the first *Report of the (New York) Commissioners to revise the Laws for His Assessment and Collection of Taxes*, 1871, p. 33.

2. *Lack of universality*, or failure to reach personal property. This defect although the most flagrant, perhaps requires the least comment; for it is so patent that it has become a mere byword throughout the land. The escape of personal property is noted almost from the beginning of the existence of the property tax in the American colonies. Thus in Massachusetts Bay as early as 1651 we find an interesting account of the difficulty experienced in ascertaining certain personalty, followed by a resolution to the effect that

"To the end that all publicke charges may be aequally borne, and that some may not be eased and others burdened and it being found by experience that visible estates in land, corn, cattle are, according to order, wholly and fully taxed, but the estates of marchants, in the hands of neibours, straungers, or their factors, are not so obvious to view, but, uppon search, little of theire estates doe appeare, beinge of great valew, so that the law doth not reach them by that rule of taxing visible estates,—it is therefore ordered. ... that all marchants, shopkeep.s and factors shall be assessed by the rule of common estimation, according to the will and doome of the assessors. ... having regard to theire stocke and estate, be it psented to view or not."¹

This was evidently not of much use, for we soon after find an admonition to the officials to see "that so many estates, though more obscure and difficult to find out, may bear their due and just pportion with such estates as are more obvious and ca' not be hid."²

What was true in a certain measure at this early date has become still more true of recent years. Personal property nowhere bears its just proportion of the burdens; and it is precisely in those localities where its extent and importance are the greatest that its assessment is the least. The taxation of personal property is in inverse ratio to its quantity; the more it increases, the less it pays. The reason is plain. So far as it is intangible, personal property escapes the scrutiny of the most vigilant assessor; so far as it is tangible, it is purposely exempted in its chief form, as stock in trade, in our commercial centres. In the mad race for wealth it is considered dangerous for the local

¹ *Records of the Governor and Company of Massachusetts in New England*, edited by N. B. Shurtleff, Boston, 1853, vol. iii., p. 221.

² *Ibid.*, vol. iii. p. 426.

assessors in large cities to list the merchant's capital, with the possible result of driving it away to localities more favored by their financial officers. It is scarcely necessary to give figures to substantiate these statements; but a few facts, taken from the official documents, national, state and municipal, may be of interest.

The tenth census of the United States asserts that from 1860 to 1880 the assessed valuation of real estate increased from 6,973 millions of dollars to 13,036 millions, while that of personal property decreased from 5,111 to 3,866 millions. In 1890 the assessed valuation of real estate had grown to 18,956, while that of personal property was 6,516 millions. Scarcely more than three decades earlier in California personal property was assessed in 1872 at 220 millions of dollars, in 1880 at 174 millions, and in 1887 at 164 millions,—a net decrease in fifteen years of 56 millions. Real estate increased during the same period from 417 to 791 millions. Personal property paid 17.31 per cent, real estate 82.69 per cent of the taxes. By 1893, although the assessed value of real estate was 1,000 millions, that of personalty was only 173 millions. In Illinois in 1882 personal property paid 22.01 per cent of the taxes, in 1894 only 17.26 per cent. In Cook County (including Chicago), personal property paid only 14 per cent; in Kankakee County, only 11 per cent. In Iowa, while the real estate valuation in 1893 increased over that of the preceding year by 32 million dollars, the assessed valuation of personal property actually decreased. In New York the figures are as follows:

	Real Estate	Personal Property
1813	\$ 476,999,000	\$ 118,602,000
1859	1,097,564,000	307,349,000
1871	1,599,930,000	452,607,000
1888	3,122,588,000	346,611,000
1893	3,626,645,000	411,413,000
1911	9,639,001,868	482,499,193 ¹

The proportion paid by personal property has decreased steadily almost every year, until according to the last figures it pays but five per cent of the state taxation, as against ninety-five falling on real

¹ A part of this prodigious difference between real and personal property is due to the placing of considerable personalty like bank stock and mortgages in special classes.

estate. In forty years the valuation of real estate has increased 8 billions; that of personalty has increased only 30 millions. In the District of Columbia the valuation was in 1878: realty 83 millions, personalty 17 millions; in 1894 realty had increased to 160 millions, personalty had decreased to 11 millions. In New Jersey, in 1887, in one township the real estate was assessed at \$272,232, the personal property at \$591; in another the figures were \$2,274,900 and \$47,150 respectively. Perhaps the most remarkable figures are found in the large cities. In Cincinnati the valuation in 1866 was: realty, \$66,454,602; personalty, \$67,218,101. In 1892 the realty had increased to \$144,208,810; the personalty had decreased to \$44,735,670. In Monroe County, New York, in which the city of Rochester is situated, the realty was assessed in 1892 at \$132,202,478; the personalty at \$8,408,803. Finally, in the city of Brooklyn in 1893 real estate was assessed at \$486,497,186, while personalty was valued at \$19,123,170. Personal property, in other words, paid a little more than three per cent of the whole tax on property. In 1895 the proportion fell still lower,—to one and twenty-three hundredths per cent.

These striking figures become ridiculous when it is remembered that in our modern civilization the value of personal property far exceeds that of real estate, as understood by the taxing power. It is true that the legal distinction between real and personal property fluctuates in the various commonwealths; but in the eyes of the assessors real estate generally includes only land and the fixtures thereto, all the other forms of wealth being regarded as personal property. In Massachusetts and a few other states it is indeed provided that mortgages of real estate shall be regarded and taxed as interests in real estate. But even if mortgages were counted as real estate, and even if (as is nowhere done) other certificates of ownership in realty were also counted as real estate, it would still remain true that personal property constitutes the greater part of the national wealth. For personal property does not denote merely movable objects. It includes money, public obligations and the vast mass of intangible property represented by securities of corporations, of which only a small portion are certificates of ownership in realty. Above all, personal property includes the entire and ever-increasing annual products of agriculture and industry—the gigantic mass of modern

wealth devoted mainly to consumption, but existing as the stock in trade of individuals. Even in our western commonwealths, where the communities are still mainly agricultural, it is an acknowledged fact that the personalty exceeds the realty. The auditor of Washington tells us that, if a true valuation could be reached, it is "clear and incontestable that the wealth of the territory in personal property, for the purposes of taxation, would largely predominate over that of real estate."¹ And if this is true of the far West, how much greater must be the relative proportion of personalty in the busy marts of the East.² Yet the more differentiated the industry and the more predominant the personalty, the less does the latter contribute; until in the foremost state of the Union realty pays more than nine-tenths and personalty less than one-tenth; while in its second largest city realty in 1893 paid ninety-nine hundredths and personalty only one hundredth of the tax. The later figures are even more striking.

The taxation of personal property, therefore, is in inverse ratio to its quantity. The more it increases, the less it pays. The general property tax thus sins against the principle of universality of taxation even more than against the principle of uniformity. In the middle ages whole classes were exempt by express provision of the law; in our time and country whole classes are exempt by the inevitable working of the law. It is the law which is equally at fault in both cases.

3. *Incentive to dishonesty.* One of the worst features of the general property tax is that any attempt to enforce the taxation of personalty by more rigid methods results in evasion and deception. The property tax necessarily leads to dishonesty, and this for two reasons. In the first place, under our system, whole classes of personalty are exempt from state taxation. The most familiar examples are imported merchandise in the original package; United States bonds, notes, checks and certificates; property *in transitu*; goods produced in another state sent on commission; deposits in savings banks, etc. The temptation

¹ *Report of the Territorial Auditor to the Legislative Assembly*, 1887, p. 94. Cf. Biennial Report of the Auditor of Iowa, 1881, p. 8, and that of the Comptroller of Idaho, 1887-88, p. 74, to the same effect.

² Cf. *New York State Assessors' Report*, 1880, and *Comptroller's Report*, 1889, p. 33: "I am sure that the actual value of the personal property legally liable to taxation exceeds that of the real estate."

for the taxpayer to convert his property temporarily into these classes is generally irresistible. Not only does the law hold out to individuals inducements to practise fraud, but it sustains them in its commission.¹ Secondly, wherever any pretence is made of enforcing the tax on personalty, and especially where the taxpayers are required to fill out under oath detailed blanks covering every item of their property, the inducements to perjury are increased so greatly as to make its practice universal. The honest taxpayer would willingly bear his fair share of the burden; but even he cannot concede his obligation to pay other men's taxes. When an effort is made to introduce still more drastic methods by the employment of so-called "tax-inquisitors" or "tax-ferrets," as until recently in Ohio and Iowa, and still in Indiana, Kentucky and Oklahoma, the situation becomes still worse. The only result of more rigid execution of the law is a more systematic and widespread system of deception. Official documents tell us that "instead of being a tax upon personal property, it has in effect become a tax upon ignorance and honesty. That is to say, its imposition is restricted to those who are not informed of the means of evasion, or, knowing the means, are restricted by a nice sense of honor from resorting to them."² The tax commission of New Hampshire declares that "the mere failure to enforce the tax is of no importance, in itself considered, in comparison with the mischief wrought in the corrupting and demoralizing influences of such legislation."³ The Illinois commission asserts that the system is "debauching to the conscience and subversive of the public morals—a school for perjury, promoted by law."⁴ The Connecticut commission maintains that the resulting "demoralization of the public conscience is an evil of the greatest magnitude."⁵ A later New York report states that "it puts a premium

¹ In *People ex rel. Ryan*, 88 N. Y. 142, the Court of Appeals held that the assessors were bound by a transaction which the court itself declared to be "a device to escape taxation." In 1892, however, a law was passed in New York requiring applicants for reduction of assessment to make oath that they had not incurred debts for the purpose of avoiding taxation.

² *Report of the Commissioners of Taxes and Assessments in the City of New York*, 1872, p. 9.

³ *Report to the Legislature*. By Hon. George Y. Sawyer, 1876, p. 16.

⁴ *Report of the Revenue Commission*, 1886, p. 8.

⁵ *Report of the Special Commission on Taxation*, 1887, p. 27. Cf. the *New Jersey Tax Commission Report*, 1880, p. 11.

on perjury and a penalty on integrity."¹ The Ohio commission tells us that "it results in debauching the moral sense and is a school of perjury, imposing unjust burdens on the man who is scrupulously honest."² The Cleveland commission of 1895 says that "the existing system is productive of the gravest injustice; under its sanction, grievous wrongs are inflicted upon those least able to bear them; these laws are made the cover and excuse for the grossest oppression and injustice; above all and beyond all, they produce in the community a widespread demoralization; they induce perjury; they invite concealment. The present system is a school of evasion and dishonesty. The attempt to enforce these laws is utterly idle."³ The West Virginia commission tells us that "the payment of the tax on personalty is almost as voluntary and is considered pretty much in the same light as donations to the neighborhood church or Sunday-school."⁴ The New Jersey commission tells us that "it is now literally true that the only ones who pay honest taxes on personal property are the estates of decedents, widows and orphans, idiots and lunatics."⁵ Every annual report of the state comptrollers and assessors complains bitterly that the assessment of personalty is nothing but an incentive to perjury.⁶

4. *Regressivity*. Taxes are progressive when their increase is more than proportional to the increase of the property or income taxed, i.e. when the rate itself increases with the increase of the property. Taxes are regressive when the rate increases as the property or income decreases. The general property tax in its practical effects is often regressive, since the tax on personalty is levied virtually only on those who already stand on the assessor's book as liable to the tax on realty. Those who own no real estate are in most cases not taxed at all; those who possess realty bear the taxes for both. The weight of taxa-

¹ *Report of Counsel to Revise the Tax Laws of New York*, 1893, p. 12.

² *Report of the Tax Commission of Ohio*, 1893, p. 22.

³ Report of the Special Committee of Taxation of the Cleveland Chamber of Commerce, 1890, p. 10.

⁴ *Preliminary Report of the Tax Commission*, 1884, p. 10.

⁵ *Report of the Commission to investigate the Subject of Taxation in the State of New Jersey*. Trenton, 1897, p. 75.

⁶ Cf. *Report of California Board of Equalization*, 1885-8(5, p. 6. For similar quotations from the reports of the new state commissioners from 1895 to the present, see *infra*, chaps, xix, xx.

taxation really rests on the farmer, because in the rural districts the assessors add the personalty, which is generally visible and tangible, to the realty, and impose the tax on both. We hear a great deal about the decline of farming land. But one of its chief causes has been singularly overlooked. It is the overburdening of the agriculturist by the general property tax. What is practically a real property tax in the remainder of the state becomes a general property tax in the rural regions. The farmer bears not only his share, but also that of the other classes of society. Thus official documents tell us that "the class of property that escapes taxation most is the class of property that pays the largest dividends."¹ And in general it may be said, with our state auditors, that "the property of the small Owner, as a rule, is valued by a far higher standard than that of his wealthy neighbor."² Or, as it is put by others: "In every portion of the state we find the most unproductive property, and that of the lowest real value, assessed at the highest ratio. The rule holds good that those who have to battle hardest with life for subsistence, are compelled to pay the most onerous taxes on the real value of their property."³

It is no wonder that in their desperation the small farmers should cry out for the equal enforcement of the laws taxing personalty; it is no wonder that they should attempt to stem the current in ignorance of the impossibility of the task. They have forgotten Walpole's saying, that it is safer to tax real than personal estate, because "landed gentlemen are like the flocks upon their plains, who suffer themselves to be shorn without resistance; whereas the trading part of the nation resemble the boar, who will not suffer a bristle to be plucked from his back without making the whole parish to echo with his complaints."⁴

5. *Double taxation.* Double taxation, as we shall see later on, is of various kinds. But there is one form which is particularly applicable to the property tax, namely that of debt exemption. This is perhaps

¹ *Biennial Report of the Auditor of Iowa*, 1880-81, p. 6.

² *Biennial Report of the Auditor of Kentucky*, 1887, p. iv.

³ *Report of the State Assessors of New York*, 1873, p. 9. Cf. *West Virginia Tax Commission, Preliminary Report*, 1884, p. 8; *Report of the Comptroller of Tennessee*, 1888, p. 16.

⁴ Cf. Sinclair, *History of the Public Revenue*, vol. iii., appendix, p. 79.

the greatest weakness of the general property tax, and the one which has given rise to the most interminable discussion.

On the one hand it is maintained that an offset should be made for all indebtedness, whether mortgage debts on real property or general liabilities on personalty. Individuals should be taxed on what they own, not on what they owe. To tax both borrower and lender is double taxation. This is the view of the Connecticut commission,¹ and the practice of most of the states accords with it. On the other hand, the majority of American investigators assert that deduction for indebtedness results practically in such injustice and deception as to be utterly unendurable. They therefore demand that there shall be no offset of debts against property. This is the view of the Massachusetts and New Jersey commissions,² and the practice in some states like Pennsylvania, Georgia, Kentucky, Louisiana, Maryland and Missouri.

Both these views are correct. To tax both lender and borrower for the same property is plainly double taxation, and therefore unjust. The fallacy of the contrary opinion consists in looking at the property rather than at the owner. What the state desires to reach is primarily the individual. It taxes his property simply because it considers this a test of his ability to pay. But his ability is manifestly reduced *pro tanto* by his debts. His true taxable property therefore consists in his surplus above indebtedness. Otherwise one would be taxed for what he has, and another for what he has not. As it has been well put, what we want to tax is ability, not liability. This is the view accepted by all European authorities.³ The only American scientist who holds to the contrary opinion, Amasa Walker, does so in a half-hearted way; for he bases his view on arbitrary data, confesses that much hardship will ensue, and finally concludes that the income-tax principle is the only just one.⁴ To tax both property and credits, both lender and borrower, is plainly incorrect in principle and inequitable in practice.

On the other hand, it is equally true that deduction for debts is thoroughly pernicious in its operation. It is the universal testimony

¹ *Report of the Commission of 1887*, p. 26.

² *Massachusetts Commission*, 1875, pp. 95-98; *New Jersey Commission*, 1880, p. 20; *Commission of 1891, Preliminary Report*, p. 10.

³ Roscher, *Finanzwissenschaft*, p. 336; Wagner, *Finanzwissenschaft*, ii., p. 432.

⁴ A. Walker, *Science of Wealth* (7th edition), 339.

that no portion of the tax laws offers more temptations to fraud and perjury than this system of offsets. The creation of fictitious debts is a paying investment. In the states where such deductions are permitted, attempts to obtain immunity from taxation in this way are widespread and generally successful. And they are most successful in the case of property which already bears less than its share of the burdens. The great majority of officials cry out against debt-exemption as an utter abomination.¹

Both methods are thus unendurable. Debt-exemption and no debt-exemption are equally bad. The states shift from one policy to the other in equal despair. We are therefore forced to the conclusion that the whole system is unsound. The fault lies not in the exemption, but in the taxation, of property. The general property tax under either of these two methods produces crying injustice. As there is no third method possible, the inference is that the injustice is of the essence of the general property tax. The New York commission, indeed, came to the conclusion that mortgage debts should be deducted from realty, but that there should be no offset for debt in the assessment of personalty.² This would be a legal discrimination wholly subversive of the first principles of justice. As a matter of fact, just the contrary principle prevails at present in New York and Connecticut; debts are there deductible only from personalty. There is no logical escape from one of the two methods, debt-taxation or debt-exemption; and under either plan the general property tax stands convicted by the test of experience.

Under a system, indeed, where there is no general property tax, but simply a tax on real estate, the question of taxing mortgages assumes a different aspect and must be decided independently. As that problem is discussed elsewhere in this volume,³ it may be omitted here. But as soon as we have the general property tax and exempt mortgage debts on real estate, the exemption must consistently be accorded to all debts. And we are then immediately confronted by the dilemma just discussed.

¹ *Report of the Commissioners of Assessment and Taxation in Oregon*, 1886, p. 9.

² *First Report*, 1871, pp. 60-69, 71-79. Cf. the sharp criticism in the *Massachusetts Tax Commissioners' Report*, 1875, p. 96.

³ *Infra*, chap. iv.

If we sum up all these inherent defects, it will be no exaggeration to say that the general property tax in the United States is a dismal failure. No language can be stronger than that found in the reports of the officials charged with the duty of assessing and collecting the tax. Whole pages might be filled with such testimony from the various states. Only the following extracts from the New York reports are given, as samples:

"A more unequal, unjust and partial system for taxation could not well be devised."¹

The defects of our system are too glaring and operate too oppressively to be longer tolerated."²

The burdens are so heavy and the inequalities so gross, as almost to paralyze and dishearten the people."³

The absolute inefficiency of the old rickety statutes passed in a bygone generation [is patent to all]."⁴

The hope of obtaining satisfactory results from the present broken, shattered, leaky laws is vain."⁵

The system is a farce, sham, humbug."⁶

The present result is a travesty upon our taxing system, which aims to be equal and just."⁷

[The general property tax is] a reproach to the state, an outrage upon the people, a disgrace to the civilization of the nineteenth century, and worthy only of an age of mental and moral darkness and degradation, when the 'only equal rights were those of the equal robber.' "⁸

After such self-criticism nothing more need be said. In comparison with this, the view of the European scientists is moderate, that "a cruder instrumentality of taxation has rarely been devised."⁹ And yet,

¹ *First Annual Report of the State Assessors*, 1860, p. 12.

² *Comptroller's Report*, 1859.

³ *Assessors' Report*, 1873, p. 3.

⁴ *Assessors' Report*, 1877, p. 5.

⁵ *Report of Commissioners of Taxes and Assessments*, 1876, p. 52.

⁶ *Assessors' Report*, 1879, p. 23.

⁷ *Comptroller's Report*, 1889, p. 34.

⁸ *Assessors' Report*, 1879, p. 7.

⁹ Leroy-Beaulieu, *Science des Finances* (5^{me} éd.), iii., p. 498: "Rarement, dans la fiscalité moderne, on a inventé d'instrument plus grossier."

notwithstanding all this criticism, our methods limp along almost unchanged.

II. History of the General Property Tax in Antiquity

In the previous chapter we have learned how direct taxation begins, and have seen that the primitive form is the land tax or tax on real estate. We also noticed the process by which the original mass of property is gradually broken up, and personal property slowly assumes a greater importance in the wealth of the community. Let us study a little more in detail the subsequent history.

The monarch, or public opinion as reflected in the government, seeks to conform the practice of taxation to this change in economic facts. The property tax continues, but the assessor tries to make the tax equable by including not only the realty, but also all these new forms of personalty, whether corporeal or incorporeal. The original land tax is supplemented by other taxes, or expanded into a general property tax. The attempt is intelligible and even laudable; for it is simply the manifestation of the ideas of equality and universality of taxation. Personal property must not escape; ergo, it must be included in the designation of general property and taxed equally with the real property.

The attempt is laudable, but it is futile. Personalty will evade the most inquisitorial assessor. Wherever tried, the general property tax again resolves itself into the real property tax. History shows us that this has always been the case. The more complex the industrial development, the more inevitably does this process take place and the more surely does the general property tax virtually revert to its primitive form of real property tax. Not alone history, but theory, shows us that this must be so. For the general property tax, as we have seen, originated with and is calculated for an economic system where the only property is the collective, indivisible property, where the land-owner and capitalist are one. There is one kind of property, and therefore one kind of property tax. But as soon as property is split up into different parts, as soon as there are various kinds of property, just so soon does the single property tax become antiquated and useless. It is not only useless, but it is now absolutely iniquitous. For the attempt to include under one head the gains flowing from widely different pursuits—pursuits whose number and divergence are limited only by the well-nigh boundless variety of individual capacity—,

this attempt to reduce the multiform to the uniform can end only in the virtual exemption of the new forms and a consequent overburdening of the old. What has been conceived in the spirit of justice develops into an embodiment of injustice. What has been in its origin an attempt to attain equality results in gross inequality.

Because of the evident impracticability of the general property tax, governments now begin to fit their theories of taxation to the economic facts. They abandon the attempt to make the new facts conform to the old theories. As various forms of personalty gradually set themselves free from taxation, the state reasserts the principle of equality. But it now recognizes the existing facts and abandons the fiction of the general collective property. As property splits up into its various elements, new taxes are laid, one by one, not on the property but on the separate sources of this new wealth. The old land tax may be retained, but other taxes are imposed in various forms. Taxes on vocations, on professions, on trade, on commerce, on profits, on interest, on wages and salaries, follow in quick succession, until finally the theories and practice of taxation are in harmony with actual conditions. One by one these various sources of wealth drop off from the antiquated general property tax only to receive a new life in these fresh forms. The feeling of equity in the public consciousness cannot be put down. What escapes under one form it attempts to reach under another. Fiscal theory cannot long lag behind the facts of industrial life.

Let us test the truth of these statements by an appeal to history. Let us trace, in other words, the actual development of the general property tax.¹

In antiquity direct taxation was treated as an extraordinary source of revenue. The Athenian direct tax (Greek), as levied in the time of Solon (B.C. 596), was nominally a classified property tax, but in reality a land tax.² With the increase of wealth an attempt was soon

¹ The only general attempt thus far made to discuss this subject is that of Parieu, *Histoire des impôts généraux sur la propriété et le revenu* (1856). While interesting, it is inexact, inadequate, unclear and antiquated.

² Boeckh, *Public Economy of the Athenians*, book iv., chap. 5. J. Beloch, "Des Volksvermögen in Attika," in *Hermes*, vol. 20 (1885), pp. 245-6 maintains that it was a tax on produce, and most probably on gross produce. It was laid in kind until 428-7. For details see Seligman, *Progressive Taxation*, 2ded. (1908), pp. 11-12.

made to reach personalty; but its success is entirely conjectural. We simply know that under Nausinicus (B.C. 378) the bases of taxation were not only land and houses, but also slaves, cattle, furniture and money. It has been claimed, however, that the tax had by that time become a progressive income tax.¹ At all events there is no proof that the tax on intangible personal property as such was at all successful.

In Rome the direct tax (*tributum civium*), which was sometimes even treated as a forced loan to be repaid out of the proceeds of conquest, was levied only to meet extraordinary expenses for which the proceeds of domains (the *vectigalia*) did not suffice. As Rome was at first an agricultural community, the real "quiritarian" property alone recognized by law consisted solely of land and the capital affixed to land, like houses, slaves and cattle. These were the *res Mancipi*.² But the property tax was assessed only on the land, on the assumption that every acre of land would require a definite quantity of this productive capital.³ The early Roman property tax was therefore in effect a tax on realty, analogous to the early (Greek)⁴ With the development of trade and industry in the later days of the republic, the character of property underwent a change. The amount of personalty increased. If the *tributum* was to remain a general property tax, it would be necessary to assess also these new forms of property. And,

¹ This is claimed by Rodbertus, in Hildebrand's Jahrbücher, viii., p. 453 et seq. For the other view see the complicated interpretation of Boeckh (p. 669 of the American edition). Beloch contends that it was still a property tax at this time, and that the taxpayers were put into associations or groups (Greek) for the purpose of a more adequate assessment of personal property. See the article quoted in the last note but one, and also "Das attische Timema," in Hermes, vol. 22 (1887), p. 371. Beloch's views are accepted by Ed. Meyer, *Geschichte des Altertums*, vol. ii. (1893), p. 408, note, and *Kleine Schriften zur Geschichtstheorie und zur wirtschaftlichen und politischen Geschichte des Altertums* (1910), p. 180. Cf. also P. Guiraud, *études économiques sur l'antiquité*, 2d ed. (1905), pp. 77-79; and Francotte, *Les finances des cités grecques* (1909), p. 26.

² "Mancipi res sunt praedia in Italico solo, tam rustica, qualis est fundus, quam urbana, qualis domus; item jura praediorum rusticorum, velut via, iter, actus, aquaeductus; item servi et quadrupedes, quae dorso colloves domantur, velut boves, muli, equi, asini. Ceterae res nee Mancipi sunt." Ulpian, 19, 1. Cf. Gaius, i., p. 120; ii., pp. 15-17.

³ Marquardt, *Römische Staatsverwaltung* (2d edition), ii., p. 166.

⁴ Except that it was not a graduated tax, and was levied on the market value, not the produce.

in truth, the attempt was made. Not only farming implements, but ships, carriages, money, garments, ornaments, etc., were listed.¹ But it must be remembered that the only personalty assessed still consisted of visible, tangible objects, although the censors had practically unlimited power to take up any property into the tax-fist (census). There is no evidence to prove that trading capital proper was at all taxed.² And it is useless to speculate what might have been the result during the last period of the republic; for further progress in this direction was checked by the fact that, with one isolated exception, the republic levied no direct property tax at all on the Roman citizens after 167 B.C. Whether the *tributum civium* was again employed during the empire is a moot question. The weightier arguments seem to be on the side of those who maintain that it was never again made use of in its old form.³

In the provinces the property tax was nothing but a land tax—either a tax on the value (*tributum soli*), or a tithe (*decuma*), or a ground rent (*vectigal cerium* or *stipendium*). In addition to the land tax proper we find the poll tax (*tributum capitis*) which, in some of the older provinces where the remains of an enterprising commercial life still existed, probably included a tax on classes or professions or a nominal general property tax.⁴

¹ Matthias, *Römische Grundsteuer und Vectigalrecht*, 1882, p. 6. The leading ideas of Matthias are translated in Humbert, *Essai sur les finances chez les Romains*, ii., p. 328 et seq.

² The only one who maintains the contrary is Walter, *Geschichte des römischen Rechts* (3d edition), i., p. 271. But the passage of Livy to which he refers (vi., 27) does not bear out his assertion. Walter stands quite alone.

³ Rodbertus, *Hildebrand's Jahrbücher*, iv., pp. 408-427, and Hewegisch, *Römische Finanzen*, p. 134G, maintain its existence. But Savigny, *Vermischte Schriften*, ii., pp. 151, 185; Huschke, *Ueber den Census zur Zeit Christi*, pp. 70, 190; Mommsen, *Römische Geschichte*, ii., p. 387; and Marquardt, *Römische Staatsverwaltung*, ii., p. 171, take the opposite view. Durcau de la Malle, in his *Economie politique des Romains*, does not touch this point. The decisive quotation is that from Tacitus, *Annales*, 13, 51, of which Rodbertus' interpretation is strained. The best argument—which has not hitherto been advanced—seems to be this: that if the *tributum civile* had continued, it would not have been necessary for Diocletian to introduce into Italy the *tributum provinciale*.

⁴ Rodbertus, iv., p. 364, puts it too strongly when he says that it was only a poll tax. See Marquardt, op. cit., ii., p. 195.

The Roman property tax was therefore virtually a tax on land and the little productive capital affixed to land. Personalty, so far as it was assessed at all, consisted of the meagre tangible objects owned by an agricultural people. The Romans had a general property tax because, as in early Greece, there was only one kind of property—the collective property owned by slave-holding landed proprietors.

Under the empire industrial society began to differentiate. Caligula (A.D. 37-41) took advantage of this to levy taxes on special classes, above all on carriers, prostitutes and pimps.¹ Trading capital, everywhere the first element to separate itself from the collective mass of property, was reached for the first time by Vespasian (69-79) in the curious tax on the private owners of city urinals and closets.² Finally, shortly before Caracalla (211-217) we find a general tax on commercial capital, known henceforth as *aurum negotiatorium*. But what a singular commentary it is on the progress of civilization that the first tax on circulating capital should be on a rather degrading occupation, and the first tax on industry one on prostitutes.³ Caracalla, we are told, conferred the privilege of Roman citizenship upon all the inhabitants of the empire in order to extend to them the now numerous direct taxes, especially the succession and manumission taxes.⁴ The provincial land tax continued; but it went through the same evolution as the civic direct tax and became a general property tax.

The industrial development, however, had outrun fiscal theory. It became more and more difficult to reach personalty. More and more barbarous methods were introduced;⁵ until, as Lactantius tells us in stirring language, torture was applied to the recalcitrant owner.⁶ Un-

¹ Suetonius, Caligula, 40: "Ex gerulorum diurnis quaestibus pars octava, ex cai)turis prostituarum quantum quacque uno concubitu mereret." Cf. DioCassius, lix., 28.

² Known as *foricarii*. Suetonius, *Vespasian*, 16, 23. Cf. for other authorities Walter, *Rechtsgeschichte*, i., p. 498.

³ Hildebrand's *Jahrbücher*, v., p. 315.

⁴ At least this is the uncharitable construction of the act by Dio Cassius.

⁵ The municipal decurions, for example, were made personally liable for the taxes levied on their municipalities. Service as decurion became compulsory and hereditary. Fugitive decurions were brought back, like fugitive serfs or military deserters.

⁶ *De morte pers.* 23: *Fora omnia gregibus famiUarium referta; unusquisque cum Uberis, cum servis aderat; tormenta ac verbera personabant; filii ad versus parentes suspend ebantur; fidelissimi quique servi contra dominos vexabantur, uxores adver-*

der Diocletian the provincial land tax (known henceforth as *jugatio* or *capitatio terrena*) was introduced into Italy. But at the time of the Theodosian code and the completion of the late fiscal system, we find, not the general property tax,¹ but a vast variety of taxes, indirect and direct. Chief among the latter were those on the profits of trades, professions and artisans,² now consolidated into corporations through the petrification of industrial relations.³ But the attempt to tax personality by means of a general property tax was abandoned because the original mass of property had disintegrated. The primitive system was abolished, and was replaced by methods more or less analogous to those employed in modern Europe.

III. Early Mediæval History of the Property Tax

During the middle ages the same development can be noticed. In the early period, after the disruption of the Roman empire, there were no taxes at all. The primitive Teutonic idea forced its way into the feudal system, and the contributions originally devoted to public purposes became the private possessions of feudal nobles and overlords. The public tax became private property.⁴

In the early feudal system land was practically the only form of wealth, as it was the basis of the political fabric. In England the feudal payments (*hidage*, *scutage*, *carucage* and *tallage*) were assessed on the land, just as the Saxon *shipgeld* and *danegeld* were land taxes. These were at first levied on the gross produce of the land, either actual or as computed by the mere quantity of the land. With the progress of cultivation net produce rather than gross produce was made the test. Rents became the only practicable test of the value of land. But from the twelfth century onward, the growth of industry and commerce in the towns led to such an increase of personality or

sus maritos. Si omnia defecerunt, ipse contra se torquebatur, et quum dolor vicerat, adscribebantur quae non habebantur.

¹ The poll tax (*capitatio plebeia* or *humana*) levied on the serfs (*coloni*) was practically a property tax because it was paid by the landowner.

² Known as *chrysargyrum*, *vectigal artium*, *pensio auraria*, and *aurum lustrale*. Cf. Levasseur, *Histoire des classes ouvrières en France*, i., pp. 72-78.

³ Cf. Wm. Adams Brown, "State Control of Industry in the Fourth Century," *Political Science Quarterly*, ii. (1887), pp. 494-513.

⁴ Cf. for details Clamageran, *Histoire de l'impôt en France*, i., p. 115; and Vuitry, *Etudes sur le régime financier de la France avant la révolution*, i., p. 420.

movables that it became necessary to devise some new method of reaching the ability of the citizens. The only way out of the difficulty in England, as on the whole continent, was a combination of the taxes on lands and on movables through the general property tax.

The mediaeval town was the birthplace of modern taxation. Every inhabitant was compelled to bear his share of the local burdens, his proportion of the scot and the lot. The scot, or tax, was almost from the very outset the general property tax combined with the subordinate poll tax, exactly as in the earliest days of the New England colonies. The town, as such, generally paid its share of the national burdens in a lump sum, the *firma burgi*. But this lump sum was always distributed among the townsmen in proportion to the property of each.¹

On the continent it was the same. In the German towns the taxes were at first levied only on lands and houses.² Beginning in the twelfth century, however, other constituent elements of property, both movable and immovable, were gradually added, until before long we find the general property tax. The tempo of the development naturally varied in the different towns, but the broad lines were almost everywhere the same. Thus by the end of the thirteenth century it had become customary to add rent-charges to houses and land. As long as the rent-charges were irredeemable, they were taxed as real estate; but after they had become redeemable, they were gradually treated as personalty.³ For in Germany as in England we find the

¹ Numerous examples may be found in Madox, *Firma Burgi*, p. 281 et seq. In one town, under Edward III., each man is "taxandus et assidendus juxta quantitatem bonorum et catallorum suorum ibidem." In another town the tax "debet assideri proportionaliter juxta quantitatem bonorum suorum." For London, where each free-man paid the general property tax as *partem de bonis suis or partem catallorum*, see the examples in *Munimenta Gildhallae Londoniensis, Liber Albus*, i., p. 592 et seq. For full details as to the method of assessment tempore Edward II., see *Liber Cirstumarum*, pp. 193 et seq., 568 et seq.

² There is a rich literature of local taxation in Germany. Well-nigh every important town has had a monograph devoted to it. The general surveys are the older work of Zeumer, *Die deutschen Städtesteuern insbesondere die städtischen Reichssteuern im XH. und XIII. Jahrhundert*, Leipzig, 1878; and the more recent studies of M. E. Heidenhain, *Städtische Vermögenssteuern im Mittelalter*, Leipzig, 1906; and Bruno Moll, *Zur Geschichte der Vermögenssteuern*, Leipzig, 1911. Each of the last two works contains complete bibliographies of the local histories.

³ See the full discussion in Heidenhain, *op. cit.*, pp. 62-92, esp. 68.

feudal distinction between real estate and personal property (*Liegende* and *Fahrende Habe* or *Liegenschaften* and *Fahrniss*), which was almost tantamount to that between movables and immovables (*Mobilien* and *Immobilien*). The other elements of personalty were slowly added to the assessment lists. We find mentioned in the tax ordinances of the period the following classes of personal property: (1) household furniture, (2) clothing, ornaments and weapons, (3) food supplies for home consumption, (4) supplies of wine, straw and coal for the same purpose, (5) horses and cattle, (6) tools of various kinds, (7) wares and commodities, (8) money, (9) credits. At first a man's personalty was taxed only if the owner paid no tax on his real estate, but this alternative method of taxation soon disappeared. In almost all cases the various classes of personalty were assessed at fixed rates which varied for each class, but before long they were all merged into the general property tax—or, as it was called, the tax on property in *possessionibus, agris, domibus, censibus et rebus quibuscunque*.¹ In some towns it was called simply a tax of so much *per posse* or *pro bonorum facultate*.² The documents often speak of a man being taxable "*na sine vermugen*," or in the Latin equivalent "*secundum propriam facultatem et bonorum suorum estimationem*"³ or "*juxta suam possibilitatem et pro rata bonorum suorum*."⁴ Many of the German towns by this time combined the general property tax with the poll tax,⁵ and in the Swiss cantons the tax was even called the *Hab-, Gut-, und Kopfsteuer*.⁶

In France and in the Low Countries the conditions were the same. The tax started out as one on real estate, but soon became one on property in general, the taxpayer being assessed according to his *vaillant* (fortune), or according to his *kiretage* and *catel* (realty and

¹ Zeumer, op. cit., pp. 86-89.

² Christian Meyer, *Das Stadtbuch von Augsburg*, 1872, pp. 75, 313.

³ Von Below, "Geschichte der direkten Staatssteuern in Jülich und Berg," in *Zeitschrift des Bergischen Geschichtsvereins*, vol. 26 (1890), p. 32.

⁴ Moll, op. dt., p. 37.

⁵ G. von Schönberg, *Finanzverhältnisse der Stadt Basel im xiv. und xv. Jahrhundert*, Tübingen, 1879, p. 134.

⁶ Blumer, *Staats- und Rechtsgeschichte der schweizerischen Democratien*, ii., p. 295 et seq.

personalty), the *rentes-à-vie* always being taxable as realty.¹ At St. Quention provision was made as early as 1195 for a *collectam super omiies pecunias et hereditates burgensium*; and at Bapaume only a few years later the tax was levied *ad valentiam tenementorum et mobiliium*.²

The only distinction between England and the continent was that in England the property tax remained for centuries the sole local tax, while in France and Germany local excises or *octrois* were soon added. But for some time at least the general property tax was the measure of the individual's capacity.

The general state taxes followed in the wake of the municipal taxes. Already in 1106 a property tax was levied throughout almost all Europe in order to aid the crusaders.³ The English statute mentions in detail the various classes of taxable property, namely, lands and all movables including gold, silver, animals, coin, credits, the produce of vineyards, etc., and provides further that those who do not own as much as a pound should nevertheless pay a penny if they are either householders or in possession of some office.⁴ A few decades later, in 1188, came the Saladin tithe, on the occasion of the third crusade, when all rents and movables (*redditus et mobilia*) were expressly made taxable.⁵ In England from this time on, the grants of rents and movables (*de redditibus et mobilibus* or, as they were sometimes called, *de redditibus et catallis*) became more and more common until they finally superseded the older methods of securing revenue. The fractional parts of the property granted varied from a fortieth to a fourth; but from 1290 it became customary to tax the

¹ Espinas, *Les finances de la commune de Douai des origines au XV siècle* (1902), p. 119 et seq. This work is especially valuable for its wealth of detail as to the French and Flemish towns.

² In 1200. Espinas, op. cit., p. 119, note.

³ Sinclair, *History of the Public Revenue*, i., p. 88. For a general treatment see Gottlob, *Die päpstlichen Kreuzzugssteuern des 13ten Jahrhunderts*. Heiligenstadt, 1892.

⁴ The ordinance is reprinted in full in Manes "Die Einkommensteuer in der englischen Finanzpolitik," in *Festgaben für Wilhelm Lexis*, 1907. It is also found in B. Moll, *Zur Geschichte der englischen und amerikanischen Vermögensteuern*, 1912, p. 7.

⁵ This ordinance is printed in full in Dowell, *History of Taxation*, etc., vol. ii (1888), appendix.

nobility and the clergy only two-thirds as much as the commons. In 1334 the proportion was fixed as the fifteenth and the tenth. The tax accordingly came to be known as the fifteenth and tenth (*quinzime* and *disme*). Strictly speaking, the tenth was levied in the cities, boroughs, and lands of ancient demesne, the fifteenth in the rest of the country. Practically, however, the fifteenth was a tax on rents or realty, the tenth a tax on movables or personality.

The name applied to the English tax—fifteenths and tenths or tax on rents and movables—brings up two interesting problems. The one is, why rents or produce should have been put on a plane with movables or property; the other is, why they should have been taxed at different rates.

As to the first point, it is clear that under feudal conditions, where land was not regularly bought and sold, the simplest method of ascertaining the taxable ability of the landowner was through the rental that he received for the land, a rental that was always in a certain proportion to the produce of the land. In the case of houses in the towns, especially where the land did not belong to the large landowners, we find of course more numerous examples of transfers of real estate; and accordingly the tax on town houses was sometimes assessed according to property, instead of rental, value. This is especially true in many of the German towns.¹ In the case of rent-charges again, which in the earlier centuries were far more common on the continent than in England, it is obvious that under the prevailing conditions their value could be found only as an annuity. Accordingly the annuity or yearly rent-charge was always included in the *redditus* or returns of real estate.

Personal property on the other hand had a capital value. In fact, most of the elements of personality yielded no money produce at all, but only what economists call a benefit or psychic income. Personality, therefore, was taxed according to property value; realty, except in the towns, according to rental value. Thus the mediæval general property tax was really a combination of property and product tax, product being utilized when the capital value was difficult or impossible to ascertain. In England this system of distinguishing between

¹ As in Basel, Speyer, Mainz, Regensburg, Zurich, Bern, etc. Cf. Heidenhain, *op. cit.*, p. 54.

rents and movables continued through the middle ages; on the continent and especially where feudal conditions gave way before the democratic movement, the more unified property conception gained the upper hand.

The other problem is that of the difference in rates. In England the proportion came to be, as stated, a tenth for personalty and a fifteenth for realty. On the continent the disparity was often considerably greater, the rate on personalty being frequently two or even three times as high as that on realty. Moreover, when we remember that in the case of personalty the tax was assessed on capital value, whereas in the case of realty it was assessed only on the produce of the property, the contrast becomes astonishing.

In England there is not much doubt that the difference in the rate was, in part at all events, due to the fact that the peers were politically more powerful than the commons. But in many parts of the continent we find the same practice even where the aristocrats were not in the saddle. The explanation must therefore be of a more general nature.

Some authors seek the explanation in the alleged fact that personalty, especially that part of it invested in trade and commerce, was more lucrative than real estate, and could therefore more easily endure a higher rate.¹ Apart from the fact, however, that trade capital constituted only a small part of the taxable personalty, the alleged fact is really without foundation. Other writers advance a variation of this theory by contending that real estate, especially in the towns, was of very slight productivity. The towns, they tell us, were full of empty dwellings, the population was small, and land was not the subject of speculation as in modern times. The towns, we are told, even helped to rebuild houses that had been destroyed by fire.² This view, however, represents an unwarrantable generalization from a single town or a single period. A more defensible theory is that land was the basis of the entire economic life in the middle ages, and

¹ This is the view of Hartung, "Die Augsburger Vermögensteuer im XV. Jahrhundert" and "Die Belastung des Augsburgerischen Großkapitals," in Schmoller's *Jahrbuch*, etc., vol. 19 (189r); and of Kollé, *Die Vermögensteuer der Reichstadt Ulm vom Jahre 1700*. Stuttgart, 1898.

² F. R. Bothe, *Die Entwicklung der direkten Besteuerung in der Reichstadt Frankfurt bis zur Revolution*, 1612-1614. Leipzig, 1906, p. 67.

since most people even in the towns made their chief living out of the land, it was only natural that the principal means of subsistence should be treated somewhat more tenderly and that the surplus over what the individual needed for his living should be taxed at a higher rate.¹ The best explanation, however, is to be found in the fact that it was administratively more difficult to reach personal property, both because some of it was more or less hidden from the scrutiny of the assessor, and because intentional concealment and fraud were far easier.² As a matter of fact the assessment of chattels was not strictly enforced. This is apparent in England, at all events, from the dissatisfaction shown with the tax of 1275, when the people were assessed *ad unguem*, i.e. up to the full value of their movables.³ In the succeeding grants the old easy practice was resumed. As the tax on lands, however, could be levied on actual rents, it was not apt to be so leniently assessed. Thus a substantial equality was probably reached. Just as in England the *tallages* merged into the fifteenths and tenths, so in France the feudal charges on the land developed into the general property tax, which however still retained the old name *taille*. The ordinances of 1254-56 attempted to regulate the assessment, and provided that immovables should be charged only half as much as movables.⁴ France thus endeavored to attain by law what England effected by custom. During the fourteenth century the *taille* came to be the chief direct tax, and in 1439 it was made a permanent annual tax. In Germany, also, the imperial and state direct taxes, in so far as there were any, took the form of general property taxes. The *Bede*⁵ or *Landbede*, the *gemeiner Pfennig*,⁶ the *Land-*

¹ This theory is vigorously espoused by Heidenhain, op. cit., esp. p. 5.

² This explanation was first advanced by the presgient writer in 1892, in an article in the *Political Science Quarterly*, and is found in the first edition of this work. It was independently advanced by Hartung in 1895 in the essays mentioned above, and is accepted in substance by Hartwig, *Der Lübecker Schoss bis zur Reformationszeit*, 1903, p. 47, and by Moll, *Zur Geschichte der Vermögensteuern*, 1911, p. 108.

³ Dowell, *History of Taxation and Taxes in England* (2d edition), i., p. 68.

⁴ Clamageran, *Histoire de l'impôt en France*, i., p. 264.

⁵ At first a feudal land payment; cf. Hüllmann, *Deutsche Finanzgeschichte des Mittelalters*, p. 133.

⁶ Lang, *Historische Entwicklung der deutschen Steuerverfassungen seit der Karolinger*. Berlin, 1793, p. 182.

schoß,¹ the Landsteuer,² etc., all followed the example of the local property tax. In Scotland the "costage" paid to England in 1424 was a general property tax. An act of that year directed that a book be prepared, containing the names of the inhabitants with a list of all their goods, including corn and cattle, as evidences of their ability to pay.³ By 1585 it had become customary to apportion the occasional burdens known as *stents* to the burghs according to their "substance and common good."⁴

In the Italian republics the commonwealth was at first supported by the general property tax. In Milan, under the name *stima e catastro de heni* it is found as early as 1208, and afterwards was levied with such severity that the assessment book was known as the *libro del dolore*.⁵ In Genoa it was called *colletta*.⁶ In Florence it was known as *estimo* and played an important role in politics.⁷ And finally we find in the Netherlands from the earliest times the general property tax known as the *schot* or the tenth, etc., on *bezittingen* (possessions).⁸

The general property tax thus existed throughout all Europe. It was moderately successful because well suited to the period. Although involving an inquisitorial search into every article of the scanty mediæval stock, as can readily be seen from the detailed schedules of assessments still in existence, the tax was levied chiefly on tangible, physical objects not capable of easy concealment. With the exception of countries like France, where the tax was emasculated by the system of exemptions, it resulted on the whole, during this early period

¹ Schmoller, "Die Epochen der preußischen Finanzpolitik," in *Jahrbuch für Gesetzgebung, Verwaltung und Volkswirtschaft*, i. (1877), pp. 3.5, 42.

² Hoffmann, *Geschichte der direkten Steuern in Baiern von Ende des xiii. Jahrhunderts*, pp. 11, 17, 39.

³ S. H. Turner, *The History of Local Taxation in Scotland*. Edinburgh, 1908, p. 151.

⁴ *Ibid.*, p. 152.

⁵ Carli, *Relazione del Censimento dello State di Milano*, in *Custodi's Scrittori Classici Italiani, parte viodema*, xiv., pp. 184, 185.

⁶ "Le imposte straordinarie si possono di questa epoca [1252] comprendere in una sola, la colletta." Canale, *Storia dei Genovesi*, i., p. 318 (edition of 1844).

⁷ Villani tells us that it was levied on "cio che chascuno haveadi stabile e di mobile e di guadagno." *Istorie Florentine fino al anno 1348*, book x., chap. 17 (vol. vi., p. 20, of Milan edition of 1803).

⁸ Engels, *De Geschiedenis der Belastingen in Nederland*, pp. 60-65.

of society, in a tax fairly proportional to the individual faculty. There was a general property tax because there was a very slight differentiation of property.

IV. Later Mediæval and Modern History of the Property Tax

Before long a change set in. In England the fifteenths and tenths were changed in 1334 from percentage to apportioned taxes. Every locality had now to raise a definite lump sum, which, it was intended, should remain the same from year to year, and which was to be apportioned in precisely the same ratio among the various counties, towns and parishes. One fifteenth and tenth therefore meant a fixed sum, and when more was needed, two or three fifteenths and tenths were imposed. The old methods of assessment, however, soon fell into disuse. Each town and county made its own arrangement and treated personal property with such leniency that the total product of the tenth and the fifteenth continually decreased. This resulted in attempts on the part of the crown to supplement the old tax by a new general property tax, called the subsidy. The early efforts met with failure, but finally, in 1514, the first general subsidy was granted, as a tax of sixpence in every pound of property. The pound rate was afterwards fixed at four shillings on lands, and two shillings eight pence on goods. But the subsidy went through precisely the same development as the fifteenth and the tenth. At first really a percentage tax, it was soon practically converted into an apportioned tax of a stated lump sum. No re-assessment of the districts took place; each locality was supposed to pay the same sum year after year. All increase in wealth was thus entirely omitted from the lists. Exemption after exemption was made, and personal property was so loosely assessed that the total yield continually declined. The most arbitrary methods were employed. Only the old "subsidy-men" were taxed; allowances were made in a multitude of cases; and the assessments of personalty were so low and partial that the subsidy became a perfect farce. As Bacon said, "the Englishman is master of his own valuation."¹ Sir Robert Cecil stated in 1592 that there were not over five men in London assessed on their goods at £200; and Sir Walter Raleigh wrote in 1601 that "the poor man pays as much as the rich."²

¹ And, he adds, "the least bitten in purse of any nation in Europe."

² *Report on Public Income and Expenditure*, 1869, ii., p. 415.

Although nominally a general property tax, the subsidy thus came to be levied chiefly on the land, and became an unequal land tax—so unequal that it finally disappeared in 1663.

Under the commonwealth an attempt was made to revive the general property tax, under the name of commonwealth monthly assessments, real estate being always assessed, as before, according to its "yearly value," personalty according to its value. These monthly assessments were already authorized during the Revolution. Thus in 1644 a "monethly assessment" was imposed upon the counties, cities and towns mentioned and levied upon "the true yearly values of lands, rents, annuities, offices and hereditaments and according to the true value of goods, chattels, debts and other estate reall or personall."¹ The improvement was so marked that the old subsidies were completely abandoned and replaced by the assessments. But the reform was short-lived and the assessments of personal property continually diminished. Sir William Petty, the author of the first theoretic work on taxation printed in England, discussed the defects of these monthly assessments in a picturesque passage as follows:

"There have been, in our times, ways of levying an aliquot part of mens estate, as a fifth, and twentieth of their estates, real and personal, yea of their offices, faculties and imaginery estates also, in and about which way may be so much fraud, collusion, oppression and trouble, some purposely getting themselves taxed to gain more trust: others bribing to be taxed low, and it being impossible to check or examine or trace these collections by the print of any footsteps they leave (such as the hearths of chimneys are) that I have not patience to speak more against it: daring rather conclude without more ado, in the words of our comick to be naught, yea, exceeding naught, very abominable, and not good."²

A little later, however, Petty was slightly more hopeful and expressed the opinion as do some of our rural legislators to-day, that "assessments upon personal estates, if given in as elsewhere upon

¹ *An Ordinance of the Lords and Commons assembled in Parliament for the raising and levying of the Monethly Sum of £120,000 towards the maintenance of the Scottish army, by a Monethly Assessment*, etc. Feb. 24, 1644. See esp.

² *A Treatise on Taxes and Contributions*, by W. Petty, London, 1667, pp. 61-62.

oath, would bring that branch which of itself is most dark to a sufficient clearness."¹

After the Revolution the tax was levied as the so-called property tax. By its terms² it was assessed on the persons possessed of personal property, real estate, or public offices or positions of profit. And it was at first a percentage tax. But the yield decreased so enormously that Parliament in 1697 fixed the sum a rate should produce, i.e. it became an apportioned tax of stated amount. A rate of a shilling in the pound meant a tax of half a million pounds for the country as a whole, this sum being subdivided in fixed amounts to the various localities. The tax varied from three to four shillings in the pound. In the case of land the tax was assessed on the rent or yearly value. In the case of personal property the tax was assessed on the value of the property, rental value of all kinds of property being deemed to be six per cent of their capital value. In the case of "any person exercising any public office or employment of profit" where there was no capital value the tax was imposed directly on the salary.³ Moreover, the difficulty of assessing personalty and the impossibility of reaching intangible property were now so apparent that whereas according to the intent of the law the chief revenue was to come from personal property, and only the residue from realty, in practice the tax became almost exclusively a land tax, and was first so called in 1697. The "annual land tax" of England was thus intended to be a general property tax and for a long time continued to be so legally.⁴

The complaints as to the escape of personal property were heard almost from the beginning. Thus in 1694 Briscoe tells us:

"And here I might take notice how the monied men are enrich'd by the ruine of the poor and industrious traders, how gentlemen (whose estates are in land) are pressed with taxes, while the

¹ Petty, *Verhum Sapienti*; or ... the Method of raising Taxes in the most equal manner, p. 17. (Appended to his *Political Anatomy of Ireland*, edition of 1691.)

² William III., chap. 1.

³ For a full explanation of the law the provisions of which are frequently misunderstood, see Seligman, *The Income Tax*, 1911, pp. 48-49.

⁴ Adam Smith, *Wealth of Nations*, book v., chap. ii. : "By what is called the land tax, it was intended that stock should be taxed in the same proportion as land." (Thorold Rogers' edition, ii., p. 553.)

monied men are in a manner tax-free; the landed man pajang more tax to their Majesties out of an estate of £100 per annum or higher, than the monied men do for £10,000 in money."¹

In the eighteenth century this had become a commonplace. A popular pamphleteer expresses himself as follows:

"This is a grievous and unequal tax. In all the remote pans of this country, the tax never was levied according to the value of their estates nor ever can be.... Monied men are another vast body who ... contribute little or nothing to this tax. Their stock in trade can never be known and is always assessed but a trifle. Money lent on mortgages never is taxed and stock in the funds hath the publick faith to exempt it so that it never can be taxed. With all these advantages the monied men, though they hold the greatest properties in the state, pay no proportion to the support of that government from whence they have equal protection with those who are charged at the utmost."²

Walpole at about the same time stated that "no man contributes the least share to this tax, but he that is possessed of a landed estate."³ Perhaps the most severe arraignment of the justice of the tax is made, toward the middle of the century, by a well-known publicist, Decker, from whose catalogue of indictments we select the following:

"Thirdly, It tends to corrupt the manners of the people, consequently to make them tumultuous and less governable.

"For being to pay in proportion to what they earn, spend, or possess, the just value whereof is impossible to be known but by themselves, and to force them to a declaration, an oath is always imposed, which makes a struggle between interest and conscience; an extreme wise law, whereby an honest man is put on a worse footing than a perjured knave: he that forswears himself pays less than his due and saves his money; but he that is conscientious pays to the full; which latter suspecting others to evade, is piqued at

¹ *A Discourse on the Late Funds of the Million-Act*, etc., by J. B(riscoe), 1694, p. 13.

² *A Letter to a Freeholder on the Late Reduction of the Land Tax to one Shilling on the Pound*, By a Member of the House of Commons, London, 1732, pp. 44, 48, 26.

³ Dowell, *op. cit.*, vol. ii., p. 99.

paying more than his neighbors, and wonders why a false oath should not fit as easy on him as on so many others; whereby the most solemn pledge of truth among men becomes frequently violated, is despised, disregarded, and interest rides triumphant over conscience; which latter being to men as a dike to keep out the torrent of vice, if once a thorough breach is made, a deluge of iniquity ensues, whereby all good principles are drowned; and the more vicious men grow, the readier they are to oppose authority."¹

So unequal and so insignificant did the old general property tax (now universally known as the land tax) become that in 1798 permission was given to the landowners to buy themselves free of the tax by the payment of a capital sum. In other words, the land tax became a redeemable rent-charge. The provision taxing personal property continued to exist on the statute book until 1833, and the clause taxing public offices and positions of profit was not finally repealed until 1867. The year before its repeal it yielded the sum of 823!² Such was the ludicrous result of the attempt to maintain mediaeval customs. The general property tax, which had started out as a land tax, reverted in name as well as in fact to its earliest form.

In Scotland the history was the same, although because of the later industrial development of the country the old system survived almost to our day.³ The chief direct tax, known as the *cess*, was originally a general property tax. In the middle ages one of the functions of the Great Chamberlain was to inquire whether the public burdens were fairly "distributed to rich and poor according to their faculties."⁴ A fixed proportion of the *cess* was allotted to each burgh and it was then paid partly out of "the common good,"⁵ partly out of real estate, while the remainder, if any, was assessed on the personal property

¹ Matthew Decker, *An Essay on the Causes and Decline of the Foreign Trade*, Edinburgh, 1756, pp. 19-20.

² *Report of the Commissioners of Inland Revenue*, 1867.

³ Cf. for a sketch of the Scotch system the *Report of the Poor Law Commissioners on Local Taxation*, 1843, and the more recent work of Stanley H. Turner, *History of Local Taxation in Scotland*. Edinburgh, 1908.

⁴ "Si equaliter ponantur super divitibus et pauperibus juxta eorum facultates." Turner, *op. cit.*, p. 158.

⁵ The "common good" included the public lands for grazing as well as feu duties on those parts loaned in perpetuity and river and loch fishings and also grain mills and occasionally a walk-mill and the like. Turner, *op. cit.*, p. 128.

and income of the taxpayers. In 1597 an order declared more precisely that the officers are to "stent" each person "according to the avail and quantity of his rent, living, goods and gear that he has within burgh."¹ In the course of time, however, personalty slipped out of the assessment list. In Dumfries by the end of the seventeenth century the records tell us that "now by the decay of trade the *cess* is like to fall on the lands and houses." In Kintore the *cess* was "paid of the land rent."

In the counties the *cess* or land tax, as it was now sometimes called, was converted into a redeemable rent-charge in 1798 and 1802, as in England. In the boroughs, however, the old system continued, each borough levying the general property tax in its own way, with suitable variations. In Banff, for instance, in the nineteenth century, the tax was levied, one-half on real estate; one-quarter on trade and merchandise, according to the amount of purchases by each trader; one-eighth on the incorporated trades; and one-eighth on the other inhabitants, according to the discretion of the stent-master. In Cullen the rate was imposed on land and on trade each being rated "according to his understood ability to pay."² So burdensome and vexatious were the remains of the property tax felt to be that the Commission of 1835 recommended the entire abolition of the trade-stent, as it was called. It was, however, not until 1896 that the whole system of borough contribution to the *cess* was abolished and with it all attempts to raise any part of the tax from personal property.³ That was the end of the state general property tax in Scotland.

In other countries the history of the property tax is identical. In France the *taille* was of two kinds; the *taille réelle*, which was levied only on lands in the pays d'etat; and the *taille personnelle*, nominally a general property tax levied in the pays d' election which constituted the greater portion of France. In reality the *taille personnelle* was assessed only on the families or households of the non-nobles (*roturiers*), and it became practically a land tax like the *taille réelle*; for the wealthy owners of personalty soon acquired the same privileges as the nobility. Vauban tells us that the *taille* as a tax on movables

¹ Turner, op. cit., p. 159.

² Ibid, pp. 164, 165, 183.

³ Ibid., p. 167.

was assessed only on the poorest classes.¹ Sully, indeed, endeavored in 1660 to restore the principles of the general property tax and to assess personalty as well as realty.² But he failed ignobly; for, at the close of the seventeenth century, the great work of Boisguillebert is full of bitter complaint and lamentation.³ And when the attempt was made in the eighteenth century to supplement the *taille* by the *dixièmes* and *vingtièmes*, like the tenths or fifteenths of old in England, the new tax again soon became virtually a land tax.⁴ The development was inevitable, and it resulted during the Revolution in the total abolition of the general property taxes.

In Germany, the mediaeval assessment lists to be filled out by the taxpayer bear a striking resemblance to those still used in some of the American commonwealths.⁵ But there, as here, it became continually more difficult to reach personal property. In Prussia (Brandenburg) this was true already at an early period.⁶ In Bavaria as well as in Austria the nobility and the richer commercial class succeeded at the end of the sixteenth century in shoving the main burdens on the shoulders

¹ "En résumé la taille était un impôt territorial qui l'atteignait que les propriétaires les plus pauvres du royaume, et une taxe mobilière qui portait exclusivement sur les classes les moins riches de la société." *Dîme royale*, p. 32 of Daire's edition.

² Sully ordered the officials to assess contributors "à raison de leurs facultés, quelque part qu'elles soient, meubles ou immeubles, héritages nobles ou roturiers, trafic et Industrie." Cf. Clamageran, *Histoire de l'impôt*, ii., p. 359.

³ "Il n'y a pas le tiers de la France qui y contribue, n'y ayant que les plus faibles, et les plus misérables; en sorte qu'elles les ruinent absolument." *Le détail de la France*, chap. iii.

⁴ "Dans la pratique, l'élément foncier prédominait presque exclusivement." Stourm, *Les finances de l'ancien régime et de la révolution*, i., p. 240. See also Necker, *De l'administration des finances de la France*, i., p. 159. It must be noted, however, that these taxes were calculated on the basis of income, rather than of selling value. For details, see Seligman, *The Income Tax*, 1911, pp. 51-53.

⁵ For a typical list of 1531, see Bielfeld, *Geschichte des magdeburgischen Steuerwesens von der Reformationszeit*, pp. 19-23.

⁶ Schmoller, "Die Epochen der preussischen Finanzpolitik," in his *Jahrbuch*, i., pp. 42, 49. Cf. his "Studien über die wirtschaftliche Politik Friedrichs des Grossen," in the *Jahrbuch*, viii., p. 38, for Brandenburg; viii., p. 1011, X., p. 330, and x., p. 350, for Magdeburg. Cf. also F. J. Neumann, *Die persönlichen Steuern vom Einkommen*, 1896, p. 232.

of the rural population.¹ And in the other German states the equal property tax remained so only in name.²

In the Netherlands, the general property tax or two hundreth seemed in the seventeenth century to possess some advantages in English eyes. We are told by a pamphleteer that

"The two hundredth part is assessed upon the whole bulke of a mans substance so that whoever is worth two hundred shillings or in pounds payes in one to the treasury, for foure hundred and so proportionably: but some may say, how can the magistrate make a true estimate of every mans private fortunes? Since none easily betray their opulence or indigence; whence may be infer'd, that the magistrate often declines the way of equity, seeing it cannot be but that some will passe for poorer, others for richer than indeed they are. This difficulty is prevented by a prudent temper and moderation. ... Most men being ambitious and having the epute of opulent, many from whom the magistrate exacts too much, chuse rather to pay then proclaime the slenderness of their fortunes. So that vice itselfe supports vertue and reall profit is reaped from wealth imaginery."³

Half a century later, however, the testimony of writers on the spot shows that the general property tax in Holland worked just as badly as elsewhere. We hear that:

"Finally, in an extreme necessity of money, there may be impos'd a general tax on all the moveable and immoveable estates of the inhabitants. I say in an unusual great necessity, because by these taxes there would fall a greater hardship upon the common inhabitants than could fall by any other expedient of this nature. And seeing the assessors are wholly ignorant of mens personal estates or what the inhabitants do owe, or is owing to them; and if they did know the value of them yet could they not tax them so equally as may be done in the case of immoveable goods: We may therefore easily see, what by favour and hatred, and by ignorance of the assessors, that there must be an intolerable inequality in

¹ Hoffmann, *Geschichte der direkten Steuern in Baiern*, p. 70.

² Wagner, *Finanzwissenschaft*, iii. (1st edition), pp. 62, 77, 80.

³ *The City Alarum or the Weeke of our Miscarriages, etc., whereunto is annexed a treatise of the Excize*, London, 1645, pp. 29.

bearing this tax. Those that would honestly declare their estates might lighten the tax; but the fraudulent will unavoidably make it heavier."¹

In Italy the development of the property tax can be clearly studied in Florentine history. The *estimo*, at first assessed with comparative equality, soon became honeycombed with abuses. Personalty slipped out of the lists, the rich bankers entirely escaped, and the whole load of taxation fell with crushing force on the small owners, *popolo minuto*. Hundreds were completely ruined and compelled to seek refuge in exile.² The discontent became so loud that after threats of revolution and disorder the *estimo* was finally supplanted in 1427 by the new tax, *catasto*, to be levied on the personalty of traders and bankers as well as on realty. Machiavelli gives us an interesting account of the opposition of the nobles, who were at the same time great financiers.³ But the new general property tax went the way of its predecessors. When we read of the subterfuges and evasions, of the strenuous efforts on the part of the state to compel the listing of personalty and of the dismal failure of the attempts, we seem to be reading the present-day reports of American commonwealth assessors or comptrollers. Their experience was precisely the same as ours. In 1431 only fifty-two persons paid the tax on trade capital, although the amount of such capital must have been immense. And in 1495 the tax was made in name, what it had long been in fact,⁴—a tax on immovables only. Personalty, as such, was henceforth legally exempt. The general property tax had again become a land tax. Throughout Europe the local property tax also has become a tax on real estate. In England the whole system of local taxation is based on the poor rate, according to the statute of 1601 which mentioned as

¹ *The True Interest and Political Maxims of the Republick of Holland and West Friesland*. By John DeWitt, and other Great Men in Holland, London, 1702, pp. 109-110.

² Cf. Leon Say, *Les solutions démocratiques de la question des impôts*, i., p. 209 et seq., especially pp. 222, 229. He gives no references. For a full history, see Baer, "Il Catasto Fiorentino nel secolo xv.," *Nuova Antologia*, vol. 17 (1871) and the book of Canestrini quoted in the next note but one.

³ *History of Florence*, iv., p. 14 (vol. i., p. 181 of Detmold's translation).

⁴ Canestrini, *La Scienza e l'Arte di Stato. L'Imposta sulla Ricchezza Mobile ed Immobile* (1867), i., pp. 108, 115, 321, etc.

liable to the tax not only occupiers of lands, houses, etc., but every inhabitant, parson and vicar. The tax was a general property tax levied according to the ability of the individual, *ad statum et factiditates*, as the courts put it. At first land was assessed, as everywhere else at the beginning, simply according to the number of acres; but by the time of William III., rental value was substituted for mere quantity as the test of ability. Since personal property also was taxable, this was, however, simply a general property tax. Yet from an early period the rule was adopted that all personal property liable must be local, visible and productive of a profit.¹ Thus intangible personalty, tangible personalty kept in the owner's hands, earnings from personal abilities, and profits from moneys invested or lent at interest in another parish were exempt as being either unproductive, invisible, or not possessing a local *situs*.² The only property not excluded by these conditions was stock in trade; but it was not until the industrial revolution toward the close of the eighteenth century that the matter became of importance. Lord Mansfield in 1775 showed the impolicy of such action,³ but although the liability of stock in trade was hotly disputed, it was affirmed by Lord Kenyon in 1795.⁴ The results were doubly disastrous in the places where it was tried: the early success of the experiment led the justices of the peace to begin that improvident method of poor relief known as the allowance system;⁵ and the practice of rating stock in trade, which was confined to the old clothing district in the south and west of England, resulted in the rapid decline of the ancient staple industry and a transfer of the business to

¹ In 1633 it was decided that "the assessments are to be according to the visible estates, real and personal, of the inhabitants." Sir Anthony Earby's Case, 2 Bulstrode, 354.

² *Report of the Poor Law Commissioners on Local Taxation*, 1843, 8vo edition (1844), p. 43 et seq., and especially pp. 34-38. This contains an excellent history of local taxation in Great Britain. A more recent work is Edwin Cannan, *The History of Local Rates in England*, 1896 (2d ed., 1912).

³ Rex vs. Ringwood, 1 Cowp. 326.

⁴ Rex vs. Mast, 1 Bott. 204. For a detailed statement of the case see Appendix A to the Report of the Poor Law Commissioners on Local Taxation, 1843, nos. 35-94. The existence of the general property tax can still be seen in 1791. Cf. Rex vs. White, 4 T. R. 771.

⁵ By the *Speenhamland Act* of 1795. See *First Annual Report of the Poor Law Commissioners*, 1835, p. 207.

Yorkshire, where personalty was not assessed.¹ When the principle was tested in another district in 1839, the courts again upheld the practice.² As a consequence, a law was passed which exempted personalty from taxation,³ but it was powerless to bring the trade back to its old channels. The exempting law was enacted for only a year, but it has been annually renewed ever since.⁴ Thus for the last half century the local property tax in England has been legally as well as actually a tax on productive real estate alone.⁵

Scotland has had an especially interesting history because of its later industrial development and of the consequent survival of the old system almost to our own day.⁶ The local tax in Scotland, as in England, originated with the Poor Act. The earliest law providing for compulsory in lieu of voluntary contributions was the Vagabound Act of 1574, which authorized the elders and deacons in towns and the headsmen of rural parishes "by their good discretion to tax and stent the whole inhabitants of the parish ... according to the estimation of heir substance."⁷ The "stent-roll" was to be revised yearly

¹ *Report of the Poor Law Commissioners on Local Taxation*, 1843, 8vo edition, p. 38.

² *Queen vs. Lumsdaine*, 10 Adol. and Ellis, 157.

³ 3 and 4 Vict., chap. 89, provided that it should not be lawful "to tax any inhabitant in respect of his ability derived from profits of stock in trade or any other property," except "lands, houses, tithes impropriate, propriations of tithes, coal mines, or saleable underwoods."

⁴ By the *Expiring Laws Continuance Act*

⁵ Thorold Rogers, *Local Taxation*, especially in *English Cities and Towns*, p. 16. Cf. also Cannan, *op. cit.*, *passim*; Noble, *Local Taxation*, p. 58; Palgrave, *Local Taxation in Great Britain*, p. 78; Goschen, *Reports and Speeches on Local Taxation*, p. 50; Phillips, "Local Taxation in England and Wales," in Probyn's *Local Government and Taxation in the United Kingdom*, p. 502; Bilinski, *Die Gemeindebesteuerung und deren Reform*, p. 35 et seq. See also Hedley, *Observations on the Incidence of Local Taxation* (1884), who opposes the exemption of stock in trade and the attempts to get machinery exempted from ratability. Cf. G. H. Blunden, *Local Taxation and Finance*, 1895. Some interesting material may also be found in J. J. O'Meara, *Municipal Taxation at Home and Abroad*, 1894. The best works on the legal aspect of the question are Boyle and Davies, *The Principles of Rating practically considered*, 1890; Castle, *Law and Practice of Rating* (1895 and later editions); E. M. Konstam, *Rates and Taxes, a practical guide*, 1906; VV. C. Ryde, *The Law and Practice of Rating*, 2d ed., 1904; C. A. Webb, *Law and Practice of Rating and Assessment*, 1910.

⁶ Cf. especially the work of Turner, cited *supra*, p. 49, note 3.

⁷ *Ibid.*, p. 14.

according to the "increase or diminution of men's goods and substance." In 1649 a more general act was passed empowering the commissioners, when they found the voluntary contributions inadequate, to stent the parishes according to their ability and wealth. In all these matters the criterion of ability was declared to be the "estates and conditions" or the "goods and substance" of the inhabitants.¹ In 1663 the important change was introduced that one half of the charge was to be assessed on lands and only the other half on the inhabitants according to their means and substance. In 1692 this was made a general rule.² For a long time the tax included personal estates and even the income of professional classes and artisans.³ In the various boroughs and parishes the practice was exceedingly diversified, although personal property in most cases slipped out of the assessment. The Act of 1845 granted wide option to the parochial boards. Several alterations were permitted, one of which included an assessment "upon the whole inhabitants according to their means and substance."⁴ By 1847 out of 558 parishes that used their rating powers only 71 employed the method of means and substance, the great mass imposing the tax on real estate, one-half on owners and one-half on occupiers. By 1860 out of 752 parishes only 25 used the "means and substance" method. In 1861 the Baxter Act abolished rating on means and substance in all parishes where it had been introduced since 1845. A very few parishes retained the system by right of usage previous to 1845, the last to maintain the custom being Greenock, where it continued to exist according to a curiously progressive scale, until 1880.⁵ The system was abolished because it was finally realized by the owners of real estate that the exemption of personalty really increased, rather than diminished, the value of their own real property.⁶ Thus came to an end the local general property tax in Scotland. As we have seen above,⁷ it was only a few years more before the state general property tax followed suit.

¹ Ibid

² Ibid., pp. 21, 34.

³ Ibid., p. 38.

⁴ Ibid; pp. 44-45.

⁵ Ibid., pp. 48-49.

⁶ Ibid., p. 52.

⁷ *Supra*, p. 50.

History thus everywhere teaches the same lesson. As soon as the idea of direct taxation has forced itself into recognition, it assumes the practical shape of the land tax. This soon develops into the general property tax which long remains the index of ability to pay. But as soon as the mass of property splits up, the property tax becomes an anachronism. The various kinds of personalty escape, until finally the general property tax completes the cycle of its development and reverts to its original form of the real property tax. The property tax in the United States is simply one instance of this universal tendency; it is not an American invention, but a relic of mediævalism. In substance, although not in name, it has gone through every phase of the development, and any attempt to escape the shocking evils of the present by making it a general property tax in fact as well as in name is foredoomed to failure. The general property tax as the chief source of revenue is impossible in any complicated social organism. Mediæval methods cannot succeed amid modern facts

V. Theory of the General Property Tax

While it is generally confessed that the property tax, as administered in the United States, is a failure, it is sometimes contended that if thoroughly executed it would be a just tax.¹

The theory of the general property tax designed as the sole or principal source of state and local revenue, as set forth in almost all our state constitutions, is held to be correct in principle. Is this true?

In the first place we must, disabuse ourselves of the idea that property, as such, owes any duty to pay taxes. The state has direct relations not with property, but with persons. It is the individuals who, from the very fact of his existence within the state, is under definite obligations toward the state, of which the very first is to protect and support it. The state, indeed, can exist without the particular individual, but the individual cannot exist without the state. Every civilized community professes to tax the individual according to his ability to pay, which may, indeed be measured by his property

¹ "While there is no fairer or better mode of taxation than the ad valorem system properly and justly administered, there is none more oppressive or unjust and unequal when loosely or imperfectly executed." *Report of the Comptroller-General of Georgia*, 1894, p. 5.

or by any other standard. In the last instance, however, it is the individual who really owes this duty.

But is property the true test of ability? In primitive communities it is to a certain extent. Every freeman is a proprietor, and all are supported by the produce of the land. Comparative equality of wealth gives comparative equality of opportunity, and the finer differences in ability to pay are not yet recognized. In the early stages of society property is indeed a rough test of ability.

But a change soon sets in. As society differentiates, classes arise who support themselves not from their property, but from their earnings. Manifestly he who earns a salary cannot be declared entirely devoid of ability to pay, as compared with one who receives the same amount as interest on a principal, or as profits on property. Moreover, the productiveness of property becomes a controlling element in calculating the owner's ability. Of two factory owners, one may be running full time and making large profits; the other may be compelled to keep his factory closed, earning nothing. Of two landowners, one may employ improved processes and enjoy a large product; the other, although on equally valuable land, may suffer climatic reverses and produce far less. Of two capitalists, one may invest his property so as to obtain large proceeds; the other may put an equal amount into an enterprise which yields very little. It is plainly incorrect to say that the ability in these cases varies with the property. The test of ability is shifted from property to product, proceeds or earnings.

The truth of this principle is faintly recognized in the legislation of all countries one step removed from the primitive tax system. Its application can be seen in some of the mediæval town taxes, where the earnings of the artisans and tradesmen were taxable, as evidences of ability or faculty, side by side with the property of others. It can be seen also in various attempts of mediæval states to tax the proceeds or rents of land, the salaries of officials and the products of individual exertion. In like manner, it can be seen in the early legislation of the American colonies. Thus the law tax of 1634 in Massachusetts Bay provided for the assessment of each man "according to his estate and with consideration of all other his abilities whatsoever." The measure of ability, however, was still property, as appears from the provision of 1635 that "all men shall be rated for their whole abilities,

wheresoever it lies." By 1646, the glimmering of the new idea is seen; for the law now provides not only for rating of all "estates, both real and personal," but also for the taxation of "manual persons and artists," who "are to be rated for returns and gains proportionable unto other men for the produce of their estates." In other words, not only property but product was taken into account. In many of the other American colonies, also, the profits of certain classes were taxable like the produce of estates, by what was known as the faculty tax or the assessment on the faculty.¹ We see, therefore, how wide of the mark is the statement that the system which the Americans instinctively adopted was "the equal taxation of property, the non-taxation of labor."

In the colonies, indeed, these laws mark only the first faint attempts to substitute product for property as the basis of taxation. Later on, the distinction was lost sight of and the attempt abandoned. But in Europe the development continued and the basis of the tax system was changed from property to product. Thus taxes on land, houses, wages, salaries, interest, profits, etc., gradually supplanted the property tax, and formed a more or less complete system based on product. In modern societies, as we have seen, the basis of taxation has very recently again shifted from product to income. The point here to be noticed is that throughout all Europe the mediæval basis of taxation—the mass of property—was abandoned because it no longer corresponded to the demands of justice. The property tax is theoretically unjust because property no longer measures the ability to pay—because property has been replaced by product as an index to faculty.

This is the reason for the failure of the property tax. It has, indeed, been contended by some, as, for instance, by President Walker, that the fatal defect of the property tax consists in its constituting a penalty on savings.² This criticism seems to be questionable, for the same objection would attach to any tax based on income just so far as income exceeds expenditures. An income tax on the surplus is equally a tax on savings. There is no difference in this respect between a property tax and this portion of an income tax. The only

¹ For the details of this development see Seligman, *The Income Tax*, 1911, 367 et seq.

² *Political Science Quarterly*, vol. iii. (1888), p. 3.

logical conclusion from this objection to the property tax is a tax on expense. If we wish to avoid taxing savings, we must tax only expenditure. And yet President Walker correctly opposes the expense tax as the most unjust of all. The property tax is unjust, not because it is a penalty on savings, but because property is no longer a measure of ability.

There is not a single scientist of note who upholds the property tax as the sole or chief direct contribution. Some of the German writers on finance do, indeed, advocate a general property tax, but simply as a subordinate supplement to all existing direct taxes,¹ and mainly as an adjunct to the income tax, in order to tax income from property more than professional or individual earnings. These writers, however, overlook the fact that the same result may be attained by making a difference in the rate of the income tax, as in Italy. Above all, the continental countries have been so long exempt from the general property tax that the European writers have given it very little attention, have forgotten its shortcomings and have failed to analyze its inherent defects.

One other argument of somewhat more weight is sometimes advanced in favor of the property tax, viz., that under any other system unproductive property, like jewellery, art collections, unimproved lands, etc., would be exempt. This consideration at its best does not justify a general property tax, but a tax on special kinds of property. Entirely apart from the impolicy of taxing art collections, or the impossibility of discovering jewellery, or the utter insignificance of this kind of property when compared with the total national wealth, the argument is defective. The conversion of capital into unproductive wealth of itself destroys the revenue, which is the only true fund for the payment of taxes. It is undeniable that if the property were productive, and if the tax were levied on the product, the owner would pay a larger sum. But on the other hand, his revenue would be still greater and his annual surplus above the tax would constitute an ever-increasing productive fund. To leave unproductive property free may thus indeed lessen the share of the government, but seems to be

¹ Cf. Gustav Cohn, *Finanzwissenschaft*, §475: "Neben der Erwerbsbesteuerung bleibt für die Besitzbesteuerung heute nur ein beschränkter Raum übrig." See the English translation, p. 566: "The taxation of earnings as it exists to-day leaves but scant room for taxes on possessions."

nothing more than justice to the individual. His renunciation of revenue diminishes *pro tanto* his tax-paying ability. It is really only because of the belief that the possession of these articles of consumption involves an expenditure for their maintenance, or forms an indirect proof that their owner is able not only to retain these articles of luxury, but also to live in comfort on his income, that we attempt to tax this kind of property. In other words, just as relative expenditures of certain kinds afford a rough criterion of a man's income, because his standard of living usually bears a fairly definite relation to his income, so the taxation of special articles of property may really be considered an indirect way of getting at relative revenue. But precisely because it is very rough and indirect, it is in the main unsatisfactory.

The great element of reason in the demand for the taxation of unproductive property is to be found in the assessment of real estate. It is an undoubted fact that real estate is often held for speculative purposes, and that it is the duty of the community not to encourage such speculation by exempting vacant lands from taxation. The owner expects to reap from the future value of the land, whether he sells or keeps it, a sum more than sufficient to recompense him for his outlay and intervening loss of interest and profit. He is prospectively earning an annual revenue from the land, whose present unproductiveness is technical rather than real. It is thus perfectly logical to tax unproductive real estate even though the basis of taxation be product rather than property. It is the estimated, rather than the actual, product that is taxed.

But even granting that there is this justification for a tax on certain forms of unproductive property, it would not strengthen the case for a general property tax. At best it would simply mean that the tax on product should be supplemented by a tax on certain kinds of unproductive property, which are really prospectively productive. No one has ever objected to a real estate tax, whether it be levied on the basis of value or of assumed product. But a real estate tax is not a general property tax; the principle of the real estate tax does not signify that property in general should be made the test of ability to pay. We may, therefore, still assert that if there are any evils arising from the absence of a general property tax, they are slight when compared to the evils inseparable from its existence.

VI. Conclusion

From the preceding survey it is difficult to escape the conclusion that the general property tax as the main source of public revenue is a failure from the triple standpoint of history, theory and practice.

Historically, the property tax was once well-nigh universal. Far from being an original idea which the Americans instinctively adopted, it is found in all early societies whose economic conditions were similar to those of the American colonies. It was the first crude attempt to attain a semblance of equity, and it at first responded roughly to the demands of democratic justice. In a community mainly agricultural, the property tax was not unsuited to the social conditions. But as soon as commercial and industrial considerations came to the foreground in national or municipal life, the property tax decayed, became a shadow of its former self and, while professing to be a tax on all property, ultimately turned into a tax on real property. The disparity between facts and appearances, between practice and theory, almost everywhere became so evident and engendered such misery, that the property tax was gradually relegated to a subordinate position in the fiscal system, and was at last completely abolished. All attempts to stem the current and to prolong the tax by a more stringent administration had no effect but that of injurious reaction on the morale of the community. America is to-day the only great nation deaf to the warnings of history. But it is fast nearing the stage where it, too, will have to submit to the inevitable.

Theoretically, we have found that the general property tax is deficient in two respects. First, the theory presupposes that there is an ascertainable general property—a definite surplus of assets over liabilities. In primitive social conditions this is true; there is a composite mass of property, because there is no industrial differentiation. But in the modern age property is split up into a hundred elements, so that if we attempt to tax each element separately, it is often impossible to decide from which category deductions are to be made for indebtedness. An individual, for instance, owes more on his book accounts than is due to him. Granting that he therefore pays no tax on his book accounts, shall he be permitted to deduct this surplus of debt from the value of his real estate? This is manifestly inadmissible. And yet unless this is done he is taxed not on his property, but on his surplus of debt—not on his real assets, but on what he owes;

not on his ability, but on his liability. The theory of the property tax is not carried out; and it cannot be carried out because the conditions of the theory fail. The general mass of property has disappeared, and with it vanishes the foundation of the general property tax. Secondly, the property tax is faulty, because property is no longer a criterion of faculty or tax-paying capacity. Two equal masses of property may be unequally productive, and hence unequally affect the margin of income from which the public contributions are paid. The standard of ability has been shifted from property to product; the test now is not the extent, but the productivity, of wealth. And since revenue is a better index than wealth, the vast class of earnings derived not from property but from exertion is completely and unjustifiably exempted by the taxation of property alone. The theory of the property tax again fails because the conditions of the theory have disappeared.

Practically, the general property tax as actually administered is beyond all doubt one of the worst taxes known in the civilized world. Because of its attempt to tax intangible as well as tangible things, it sins against the cardinal rules uniformity, of equality and of universality of taxation. It puts a premium on dishonesty and debauches the public conscience; it reduces deception to a system, and makes a science of knavery; it presses hardest on those least able to pay; it imposes double taxation on one man and grants entire immunity to the next. In short, the general property tax is so flagrantly inequitable, that its retention can be explained only through ignorance or inertia. It is the cause of such crying injustice that its alteration or its abolition must become the battle cry of every statesman and reformer.

American Bibliography of the General Property Tax.¹

1. Ames, John H. *The Taxation of Personal Property*. Des Moines, 1877.

¹ Exclusive of articles in periodicals, of addresses and papers in the National Tax Conferences and in the Publications of the American Economic Association, of reports of official commissions, and of the histories of taxation in the separate states and cities. For the bibliography of special phases of the property tax see the bibliographical notes in the other chapters of this book. In the *Bibliography of Works on Taxation*, by Ellen M. Sawyer, published in 1898 as a special Bulletin of the State Library of Massachusetts will be found a fairly good selection of articles on the subject up to that date.

2. Ames, John H. *The Taxation of Real Property and Corporations*. Des Moines, 1878.
3. Andrews, George H. *Taxation*. Address ... before the Assembly Committee of Ways and Means of the State of New York. New York, 1874.
4. Andrews, George H. *Unequal State Taxation*. New York, 1875.
5. Andrews, George H. *Taxes and Assessments in New York City*. New York, 1876.
6. Andrews, George H. *Twelve Letters on the Future of New York*. New York, 1877.
7. Bemis, E. W. *The Taxation Problem in Chicago*. Chicago, 1897.
8. Benton, J. H., Jr. *Inequality of Tax Valuation in Massachusetts*. Boston, 1890.
9. Brown, Frederick J. *Short Talks on Taxes with special reference to the Hayes Bill of 1892*. Baltimore, 1894.
10. Cochran, Thomas. *Local Taxation*. Philadelphia, 1871.
11. Cochran, Thomas. *Methods of Valuation of Real Estate for Taxation*. 1874.
12. Ely, Richard T., and Finley, J. H. *Taxation in American States and Cities*. New York, 1888.
13. Endicott, William, Jr. *The Taxation of Tangible Things*. Boston, 1875.
14. Ensley, Enoch. *The Tax Question: What should be taxed and how it should be taxed. Suggestions for the People of Tennessee to consider*. Nashville, 1873. 2d edition, edited by Lawson Purdy, New York, 1906.
15. Green, J. P. *The Niles Tax Bill, No. 344, H. R., before the Committee on Ways and Means. Argument*. Philadelphia, 1893.
16. Hamilton, John. *The Tax Problem. An Address delivered at the Annual Meeting of the Pennsylvania State Board of Agriculture*. Harrisburg, 1891.
17. Haugen, N. p. *The Exemption of Credits*. Madison, 1903.
18. Hinckley, Isaac, *Unequal Taxation in Delaware*. Philadelphia, 1875.
19. Hills, Thomas. *Address on Taxation*. Boston, 1890.
20. JUDSON, F. M. *Justice in Taxation as a Remedy for Social Discontent*. St. Louis, 1898.

21. KNOTT, R. W., and Humphrey, A. P. Municipal Taxation: an Argument submitted to the Revisory Commission. Louisville, 1892.
22. Lane, Jonathan A. Address on Taxation at a Meeting of the Boston Executive Business Association. Boston, 1891.
23. Le Rossignol, Jas. E. Taxation in Colorado. Denver, 1902.
24. Matschek, C. W. The General Property Tax in North Dakota. n.p., 1911.
25. Minot, William, Jr. Local Taxation and Public Extravagance. Boston, 1877.
26. Minot, William, Jr. Taxation in Massachusetts. 2d edition. Boston, 1877.
27. Olmstead, M. E. Niles Tax Bill, House Bill No. 344. Argument before the Ways and Means Committee of the House of Representatives of Pa. Harrisburgh, 1893.
28. Peabody, a. p. Address on Taxation. Boston, 1893.
29. Plehn, C. C. The General Property Tax in CaUfomia. 1897.
30. PURDY, Lawson. The Burdens of Local Taxation and who bear them. Chicago, 1901.
31. Quincy, Josiah P. Tax Exemption no Excuse for Spoliation. Boston, 1874.
32. Ropes, John C. Taxation of Mortgaged Real Estate. Boston, 1881.
33. Shearman, Thomas G. Taxation of Personal Property, impracticable, unequal and unjust. New York, 1895.
34. Sherman, Isaac. Exclusive Taxation of Real Estate and the Franchises of a few specified moneyed Corporations and Gas Companies. New York, 1875.
35. Sturgis, Roger F. Taxation: a Problem. Boston, 1911.
36. Swan, Charles Herbert. Impersonal Taxation. A Discussion of some Rights and Wrongs of Governmental Revenue. Philadelphia, 1907.
37. Wells, David A. Theory and Practice of Local Taxation in the United States. Boston, 1874.
38. Wells, David A. Tlie Reform of Local Taxation. Boston, 1876.
39. Wells, Jas. L. The Assessment of Real and Personal Property for Taxation. New York, 1902.
40. "Weyl, W. E., and others. Equitable Taxation: Six Essays in answer to the question: What Changes in existing Plans are necessary

to secure an equitable Distribution of Taxation for the Support of Governments. New York (1892).

41. Whitmore, William H. Unjust Taxes. A Criticism of the Massachusetts System of Local Taxation. Boston, 1877.

42. Winn, Henry. An Address on Unequal Taxation, n. p., 1890.

43. Winn, Henry. Massachusetts Tax Problems. Boston, 1896.

Chapter III—The Single Tax

Among the projects for social and tax reform, few have been more earnestly and enthusiastically supported than the single tax. Many persons, however, have only a faint idea of what the project really is; while others have been so influenced by the alluring arguments of its advocates, that they have not troubled themselves to investigate the problem from the standpoint of modern economic science. Let us attempt, in the following pages, to explain the nature of the single tax and to consider critically the arguments that are commonly urged in its favor.

I. What is the Single Tax?

In the first place, the single tax denotes, as its name implies, the only tax, the exclusive tax, the tax on some one class of things. The idea that the wants of the state may be supplied by such a tax is not a new one. During the seventeenth and eighteenth centuries, a band of reformers in England as well as on the continent put forward the idea of a single tax on expense.¹ So many of the privileged classes had succeeded in securing exemption from the various direct taxes, that it was hoped to realize a substantial universality of taxation by taxing everybody on his expenditure; and since it was supposed that this tax could be evaded by no one, it was for a time very popular. Later on in the eighteenth century there was a party in England whose motto was a single tax on houses.² Again, at the beginning of the nineteenth century the experience of England with the income tax led a number of writers on the continent to advance the plan of a single tax on incomes.³ Toward the middle of the century, again, a single stamp tax was advocated in France,⁴ and a generation later, the project of a single tax on capital was enthusiastically advocated not by socialists,

¹ Supra, p. 8.

² Cf. Seligman, *The Shifting and Incidence of Taxation*, 3d ed., 1910, pp. 89-95.

³ For the German advocates of this single tax see Seligman, *The Income Tax*, 1911, pp. 234-23G.

⁴ Alexis Wilhelm, *Projet d'impôt unique universel sur la fortune publique*. Paris, 1850.

but by conservative reformers.¹ The single tax proclaimed by Henry George is thus simply the last of many similar schemes that have been propounded; and it is not improbable that after it has disappeared economists of the future will be occupied in dealing with yet another form of single tax.

The present scheme is a single tax on land values,—that is, a tax on the value of the bare land irrespective of the the buildings or other improvement in or on the land. Curiously enough the taxation of land has been supported by two lines of argument which are fundamentally opposed. Thus about a generation ago Mr. Isaac Sherman, an eminent citizen of the city of New York, proposed a plan by which all state and local taxes at least were to be levied on real estate. Mr. Sherman and his followers confessed that taxes ought to be borne by the whole community. They favored the taxation of land on the theory that the tax would be shifted from the landowner to the consumer, and would thus be diffused throughout the community. As every one is a consumer, each would in the end bear his share of the burden. The tax would, moreover, have the additional merits of simplicity and convenience.

Many people to-day declare their adhesion to a tax on land for this reason. But it is remarkable that what constitutes the chief advantage of the tax in the eyes of this party is regarded in precisely the opposite way by the real advocates of the single tax on land values. Mr. Sherman said that the tax on real estate is to be recommended because it falls only nominally on the owner, and is in fact shifted to the consumer. Mr. George said that the tax on land values will stay where it is put, namely, on the landowner, and that it is to be recommended precisely because it will not be shifted to the consumer. The difference between the two theories could not be more fundamental.

As between these two theories, there is a substantial consensus of opinion among economists that Mr. George is correct. From the time of Ricardo, it has been well-nigh universally confessed that a tax on land values, i.e. a tax on economic rent, will fall wholly on the

¹ Especially Menier and his followers. For these see Seligman, *The Income Tax*, 1911, p. 290.

owner.¹ This is precisely the reason why the scheme is advocated by the single-taxers, who desire to tax the landowner out of existence—to take away from the owner of the land all his revenue rights in the land. The essential antagonism between the two schemes, therefore, cannot be emphasized too strongly. The one desires a land tax because it will be borne by the whole community; the other desires a tax on land values because it will be borne not by the whole community, but by a particular class. Yet many persons who really favor the former theory mistakenly give their adhesion to the latter. There are many self-styled single-taxers who simply believe that a land tax is the most convenient of all methods for securing the desired equality of burden. In reality, there is no kinship between them and the single-taxers proper. Mr. George warns us not to confuse a tax on land with a tax on land value.

Another point, which needs especial emphasis is the distinction to be observed between the single tax and a tax on land values. The single tax with which we have to deal is indeed a tax on land values, but a tax on land values is not necessarily a single tax. The essential feature of the single tax is the singleness of the tax—the demand for the abolition of all other taxes and the substitution of a tax on land values. This is something quite different from the demand for a tax on land values as a supplement to other taxes. The addition in recent years of a tax on land values to the tax systems of various countries must not be interpreted to be an acceptance of the single-tax philosophy. The more modern advocates of the "single tax limited," i.e. a local tax on land values plus a state tax on corporations, plus perhaps a national income tax are really not single-taxers at all. The distinction between the single tax and a tax on land values is of fundamental importance.

II. The General Theory

The general economic theory on which the demand for the single tax is based may be summed up in a few words. Land is the creation of God; it is not the result of any man's labor; no one, therefore, has a right to own land. Increase in the value of land is due mainly to the

¹ See Seligman, *The Shifting and Incidence of Taxation*, 3d ed., 1910, pp. 2S1-287.

growth of the community; like the land itself, it is not the result of any individual effort; it is an unearned increment which properly belongs to society. Moreover, private property in land is undoubtedly the cause of all social evils. It therefore becomes the duty of the government to take what rightfully belongs to the whole community. Every one may still retain the result of his own labor; but the value of the bare land, the economic rent, must be taken for the state. In this way, and in this way alone, can the social problem be solved. The consequences are epitomized as follows in the platform of the Single Tax League: "It would solve the labor problem, do away with involuntary poverty, raise wages in all occupations to the full earnings of labor, make over-production impossible until all human wants are satisfied, render laborsaving inventions a blessing to all, and cause such an enormous production and such an equitable distribution of wealth as would give to all comfort, leisure, and participation in the advantages of an advancing civilization."

This is an inviting prospect. It is not so much a method of tax reform, as a panacea for human ills, that is here set forth. It would be interesting to discuss this fine fabric of the ideal. But we must be more modest and confine our attention to the scheme primarily as a practical method of tax reform.

In order to attain a basis for this discussion, it is necessary to allude to the two fundamental doctrines on which the plan is founded. The first is the underlying theory of private property; the second is the theory of the relation of the individual to the public purse.

In the first place, the single-tax theory of property is the labor theory—the theory that individual human labor constitutes the only clear title to property. It would be interesting, were there space, to trace the genesis of this doctrine. The Romans, as is well known, had an entirely different theory—the occupation theory, based on the right of the first occupant. Against this rather brutal doctrine, which in the early middle ages paved the way for intolerable abuses, the philosophers advanced the labor theory, hoping thereby to bring about a reform in actual institutions. The labor theory went hand in hand with the doctrine of natural rights, which was the result of an earnest attempt to abolish the abuses of the ancien regime, and which came to a climax in the eighteenth century. Modern jurisprudence and modern political philosophy, however, have incontestably

proved the mistake underlying this assumption of natural law or natural rights. They have shown that natural law is simply the idea of particular thinkers of a particular age of what ought to be law. These particular thinkers, indeed, often influence the social consciousness, as they in turn are influenced by it, so that natural law may be called law in the making. But at any given time it represents simply an ideal. Whether that ideal will approve itself to society depends on a variety of circumstances, but chiefly on the question whether society is prepared for the change. Just as the modern theory of jurisprudence is sociological in character, so also the modern theory of property may be called the social utility theory.¹

The social utility theory says that just as all law, all order and all justice are the direct outgrowths of social causes, and just as private ethics is nothing but the consequence of social ethics, so private property is to be justified simply by the fact that it is the last stage of a slow and painful social evolution. At the outset, property, and especially property in land, was largely owned in common. It was only through the gradual progress of economic and social forces that private property came to be recognized as tending on the whole to further the welfare of the entire community. The social utility theory does not, of course, mean that what has once been must always be. It is not a reactionary doctrine which looks upon all that is as good. It simply maintains that the burden of proof is always upon the party urging the change; and that when the change advocated is a direct reversal of the process of centuries, and a reversion to primitive conditions away from which all history has travelled, the necessity for its absolute proof becomes far stronger. The nationalization of land is a demand which, in order to win general acceptance, must be based on theories independent of the doctrine of natural rights.

Even though we accept the theory of natural rights, we need not therefore accept the single tax. If it is said that the value of land is the work of the community, and that in consequence every one has a natural right to it, how can we logically deny that the value of any

¹ For a good exposition of the insufficiency of the doctrine of natural rights, a discussion of which would be out of place here, the reader is referred to Ritchie, *Natural Rights*, 1895; and, with special reference to the land question, to Huxley's essay on "Natural Rights," in his *Collected Essays*.

so-called product is, at least partly, the work of the community? Mr. George bases his defence of private property in commodities other than land on the labor theory. Yet individual labor, it may be said, has never by itself produced anything in civilized society. Take, for example, the workman fashioning a chair. The wood has not been produced by him; it is the gift of nature. The tools that he uses are the result of the contributions of others; the house in which he works, the clothes he wears, the food he eats (all of which are necessary in civilized society to the making of a chair), are the result of the contributions of the community. His safety from robbery and pillagenay, his very existence—is dependent on the ceaseless cooperation of the society about him. How can it be said, in the face of all this, that his own individual labor wholly creates anything? If it be maintained that he pays for his tools, his clothing and his protection, it may be answered that the landowner also pays for the land. Nothing is wholly the result of unaided individual labor. No one has a right to say: This belongs absolutely and completely to me, because I alone have produced it. Society, from this point of view, holds a mortgage on everything that is produced. The socialists have been in this respect more logical; and that perhaps explains why the movement to which Mr. George gave such an impetus in England and elsewhere is fast changing from one in favor of land nationalization into one for nationalization of all means of production. The socialists, indeed, as well as Mr. George, are in error, because the premises of each are wrong. It is not the labor theory, but the social utility theory, which is the real defence of private property. But if we accept the premises of the single-taxers, we are inevitably impelled to go further than they do. The difference between property in land and property in other things is from the standpoint of individual versus social effort simply one of degree, not of kind.

The other fundamental doctrine of the advocates of the single-tax is the theory of benefit,—the doctrine that a man ought to contribute to public burdens in proportion to the benefits that he receives. The theory is that, since the individual gets a special advantage from the community in the shape of unearned increment, he ought to make some recompense. To this contention, two answers may be made: first, that the benefit theory of taxation is inadequate; and second,

that, even if it were true, it would not support the single tax. Let us take up these in turn.

It is pointed out in another chapter that the payments made by the individual to the government are exceedingly diverse in character.¹ Where the government acts simply as a private individual, in performing certain services for the citizen, the payment is a price. It is a case of *do ut facias*. The government does something; the individual gives something. Again, even after common interests have developed, the individual may ask the government to do some particular thing for him, to confer some privilege upon him. He may wish to get married or to run a cab. For this particular privilege it is perfectly proper that the government should make a charge—known in modern times as a fee or toll. Again, the government may be at considerable expense in laying out a new street, the result of which will be to enhance the value of a particular plot of ground. There is here no reason why the government should not demand that the owner of this plot should defray at all events in part, the cost of this improvement. This is called a special assessment. In all these cases the individual receives an undeniable, special benefit as the result of a special expenditure made, or privilege conferred, by the government. The principle of give and take, therefore, is applicable.

On the other hand, there are certain actions of the government which interest the whole community, and from which the individual receives no benefit, except what accrues to him incidentally as a member of the community. If the government undertakes a war, no one citizen is benefited more than another. If the government spends money for instituting a public school system, for erecting tribunals, or for preserving the public health, it cannot be claimed that any one individual receives a measurable, special benefit; all are equally interested in good government. When payment is made for these general expenditures—and such a payment is called a tax—the proper principle of contribution is no longer that of benefits or of give and take, but of ability, faculty, capacity. Every man must support the government to the full extent, if need be, of his ability to pay. He does not measure the benefits of state action to himself first, because these benefits are quantitatively un-measurable; and secondly, be-

¹ *Infra*, chap. xiv.

cause such measurement implies a decidedly erroneous conception of the relation of the individual to the modern state.

At one time the doctrine of benefit had a relative justification. Two centuries ago, when the absolute rulers of central Europe loaded down their subjects with grievous burdens and devoted the profits to their own petty pleasures—when in France, for example, the peasant was taxable *à merci et miséricorde* of the nobility—it was natural that a school should arise to protest and to proclaim the principle of benefits. Their argument was that as the state protects everybody, everybody is under a duty to pay taxes; in other words, their plea was for universality of taxation. This was a distinct step in advance. Later on, however, the doctrine was stretched to assert that everybody should pay in proportion to benefits received, with the implication that if the state could not be proved to confer any special benefit on the individual, he should not be held to pay anything.

As thus extended, the theory has been rejected by well-nigh all the thinkers of the last fifty years. It is now generally agreed that we pay taxes not because the state protects us, or because we get any benefits from the state, but simply because the state is a part of us. The duty of supporting and protecting it is born with us. In civilized society the state is as necessary to the individual as the air he breathes; unless he reverts to stateless savagery and anarchy he cannot live beyond its confines. His every action is conditioned by the fact of its existence. He does not choose the state, but is born into it; it is interwoven with the very fibres of his being; nay, in the last resort, he gives to it his very life. To say that he supports the state only because it benefits him, is a narrow and selfish doctrine. We pay taxes not because we get benefits from the state, but because it is as much our duty to support the state as to support ourselves or our family; because, in short, the state is an integral part of us.

The principle of benefit, moreover, would lead us into the greatest absurdities. If we accept it, we must apply it logically; we must not restrict its beneficent workings to the landowner. As has been pointed out in another place,¹ the poor man, according to the theory of benefit, ought to be taxed more than the rich, because he is less

¹ Cf. Seligman, *Progressive Taxation in Theory and Practice*, 2d ed., 1908, pp. 150-157.

able than the rich man to protect himself. It is, however, needless to discuss this point because, as we have seen in a previous chapter, so far as the individual is concerned, ability to pay is not only the ideal basis of taxation, but the goal toward which society is steadily working. It lies instinctively and unconsciously at the bottom of many of our endeavors at reform. When we say that indirect taxes are often unfair to laborers, we mean that they are less able than the wealthier portion of the community to pay the tax. When we say that a corporation with large receipts should pay more than one with small receipts, we do so because we know that its ability to pay is greater. The principle of benefit is, therefore, not the basis of taxation. It is the principle away from which all modern science and progress have been working. It is founded on a false political philosophy, and it can result only in a false political economy.

It may be contended, however, that the doctrine of the single-taxers is really somewhat different, and that what they desire to emphasize is the principle of privilege or opportunity, rather than that of benefit. This, however, does not really help their case. It is undeniable that privilege constitutes an important factor in the tax problem; but correctly interpreted, privilege as we shall see in a subsequent chapter,¹ is simply an element in taxable ability. The lucrative privileges that are conferred on an individual increase his income or his property, and to that extent augment the modern index of his taxpaying ability. There is therefore no real opposition between the two conceptions; but it is obvious that privilege is the minor factor, ability the major. Privilege is one of the elements that constitute ability, not the sole element.

The result of this consideration is that a tax on land values is legitimate because it reaches one of the elements of taxable ability. But the conclusion follows with equal force that the demand for a single tax on land values is inadmissible. This is true for two reasons: in the first place it emphasizes the principle of privilege to the neglect of all the other constituent elements of faculty; it attempts to erect into the superior position a point of inferior importance; it takes a part and makes of it a whole. In the second place, even if the principle of privilege were put into this position of pre-eminence, the single-

¹ *Infra*, chap. x

taxers err in singling out a particular privilege and basing their system on this, to the exclusion of other scarcely less important privileges. This point will be more fully discussed below, under the head of the justice of the single tax. Thus in a double way the single-taxers have failed to gain the assent of tax scientists and tax reformers. The arguments, which are of unquestioned validity when advanced in favor of the addition of a landvalue tax to existing fiscal systems, lose their force in proportion that the emphasis is laid on the desirability of the single tax.

III. Practical Defects

Let us now leave the discussion of principles and come to the objections that may be urged against the single tax as a practical method of tax reform. To a certain extent indeed, the paths of American fiscal reformers and of the single-taxers are parallel, so that up to a given point it is the advantages rather than the defects of the single-tax movement that might be emphasized. As we have pointed out in a preceding chapter, the general property tax has become a failure in America. Every serious student agrees that the personal property tax as a part of the general property tax must be abolished. What to put in its stead is another question which need not be touched upon here. But the old must always be demolished before the new can be erected. Now so far as the destructive side is concerned, single-taxers and other tax reformers may go hand in hand. So ingrained is the belief of the average American in the virtue of the general property tax that the united efforts of all are necessary to effect a change. And where, as is sometimes the case, the more moderate single-taxers will go further and advocate practicable substitutes for the present-day property tax, there is still more reason for co-operation.¹ In the struggle against the common enemy there is no time for the combatants on the same side to lay stress on differences of opinion. This explains why it is that in several of the American states the single-taxers and other tax reformers are working in unison. But this harmony is, after all, destined to be only temporary. After a time, when the period for real constructive work arrives, the differences are bound to make

¹ Among the most interesting and effective of the modern single-taxers is Mr. Fillebrown of Boston. Cf. especially his *A. B. C. of Taxation* which have gone through several editions.

themselves felt and the rift will reappear. So that, however greatly we may prize the co-operation of the single-taxers for a time, the emphasis must ultimately again be put on the defects of the scheme as a practical, constructive solution of tax problems. These defects may be summed up under four heads: First, the fiscal defects; second, the political defects; third, the moral defects; and fourth, the economic defects.

1. Fiscal defects

One of the great aims of every sound financial system is to bring about an equilibrium of the budget—that is, to avoid a surplus as well as a deficit. Now, while many taxes may be suddenly lowered, not many of them can be made to give a suddenly increased yield. One of the cardinal principles of taxation, therefore, is elasticity. In order to secure this, two conditions are necessary. In the first place, the source from which the tax is derived must be of such a nature that an increase of the rate will always mean an increase of the yield. There should be in the source of taxation a reserve power which can be drawn upon in case of need. Secondly, the revenue should be secured from a number of objects, so that the shrinkages or deficits temporarily due to the one class may be made good by the increase or surplus revenues of the other class. Among the elastic taxes is the income tax, and it is well known that in English finance one of the chief functions of this income tax is to preserve the equilibrium of the budget. So again, certain taxes on commodities are often utilized for this purpose. The single tax on land values, however, is utterly inelastic; for since, according to the theory of its advocates,*1 the total rental value is to be taken from the landowners, the single tax cannot be increased. Where nothing has been left, nothing more can be taken. In the case of an emergency there would, therefore, be no possibility of increasing the revenues. Even if the total land value were not taken, it would still remain true that a direct tax on the unimproved value of land is far more inelastic than other taxes; for when the supply is constant and the price varies with the conditions of demand, the selling value as well as the rental value is subject to far more fluctuations than in commodities where the supply may be altered at pleasure. Furthermore, as we have seen, a single tax of any kind, whether on lands or on anything else, would be less elastic than

a system of taxes where one may be played off against the other. Lack of elasticity is a serious defect in the single tax.

Another fiscal weakness of the single tax is that it inevitably intensifies the inequalities resulting from unjust assessments. We all know how difficult it is to carry out laws which provide for equal assessments. Under the real estate tax in the United States, for example, the assessors are usually sworn to rate the property at its actual or selling value, and the selling value of a piece of land or of a house is comparatively easy to ascertain; yet it is notorious that in no two counties, nay even in no two adjoining pieces of property, is the standard of assessment the same. Thus the report of the Iowa Revenue Commission of 1893, states that realty in Iowa was assessed at from seventeen to sixty per cent of the true value. It is well known, too, that in Chicago adjacent plots of real estate were until recently assessed at percentages of ridiculously varying degree. Now, it is manifestly not so easy to assess the land values,—that is, the bare value of the land irrespective of all improvements,—as it is to assess the selling value of a piece of real estate. For instance, an acre of agricultural land near a large town may be worth \$200; but if used for truck-farming, considerably more than \$200 may have been expended on it during the last century or two. Who can tell how much of the \$200 present value is the value of the bare land and how much is to be assigned to the labor expended? Under the present method we have at least a definite test—the selling value; under the new method we should have no test at all. There is every likelihood, therefore, that the difficulties of the present situation would be intensified. During the past few years a number of American cities and a few states have initiated the system of differentiating between assessments on land values and on improvements. In every case, however, by improvements is meant in practice not the improvements in the land, but the improvements on the land, and not even all the improvements on the land, but only those consisting of buildings. In the cities this is of course all that is needed; but in the rural districts no effort is made to ascertain land values in the proper sense of the term. Any attempt to do so would at once engender the difficulties referred to above. Moreover, under the present system, inadequate as it is, there is always a chance that the imperfect enforcement of a particular tax law will be offset by the assessment of other taxes, direct or indirect. Under the single tax not

only would there be more difficulty than at present in making the original assessment, but any inequality in the assessment would be seriously intensified by the very fact that it is a single tax.

2. Political Defects

The adoption of the single tax means the total abolition of all custom houses and import duties; it means that there can be no such thing as a system of protection to home industry. Many would, it is true, favor the single tax precisely on this account; but there are some self-styled "single-taxers" who believe that as a matter of national policy there is a justification for import duties. Whatever we may think of the economic justification of import duties, it must be recognized that they may sometimes form an important political weapon. It is clear, however, that leaving the question of protection entirely aside, the adoption of the single tax will make it impossible to utilize import duties for political, fiscal or other purposes.

In the second place, the adoption of the single tax would render it impossible for governments to utilize the taxing power as a political or social engine. For instance, the United States government now imposes a tax on the circulation of state banknotes in order to bring about certain desirable results in the currency situation. Again, the United States government levies a high tax on opium, not for the purpose of revenue, but in order to discourage the consumption of opium; and it also assesses a tax on oleomargarine, primarily in order to ensure the purity of butter. Under the single tax, all such efforts would be impossible. Finally, to mention only one other example, one of the chief methods of dealing with the drink question is through the imposition of high liquor licenses, the fiscal importance of which is only secondary. Under the single tax we should be prevented from attacking the problem in that way. Governments have always made use of the taxing power to regulate and to destroy, as well as to yield a revenue. Were the single tax to be adopted, this power would be eliminated.¹

Thirdly, the political results of the single tax would be dangerous in another way. So far as there is any truth in the assertion that in a

¹ Mr. George indeed states that he does not object to repressive taxes, because neither a land nor a revenue question is involved. But clearly the tax would then not be a "single" tax.

democracy it involves some risk for a small class to pay the taxes and for a large class to vote them, it is especially applicable to the single tax. Since the "unearned increment" would flow of itself, silently and noiselessly into the treasury, there would be no need of a budget and the sense of responsibility in the citizens would be perceptibly diminished. It is well known that liberty has been intimately bound up with the contest against unjust taxation; the constitutional history of England is to a large extent a history of the struggle of the people to gain control of the treasury; the American Revolution was precipitated by a question of taxation; the French Revolution was brought about primarily by the fiscal abuses of the *ancien regime*. To take away, then, from the vast majority of citizens the sense of their obligation to the government and to divorce their economic interests from those of the state would, especially in a modern democracy, be fraught with danger.

3. *Ethical Defects*

The advocates of the single tax love to base their arguments on the ground of justice. In this they are certainly wise; for even though all other arguments were in its favor, if the justice of the single tax could be successfully impugned, it would be foredoomed to failure. Let us then ascertain whether it is indeed true that the single tax is an equitable method of taxation.

The two great canons of justice in taxation are universality and uniformity or equality. If anything has been gained by the revolutions of the eighteenth century and by the growing public conscience of the nineteenth and twentieth, it is a recognition of the fact that all owe a duty to support the state, that a system of wholesale exemptions is iniquitous, and that every taxpayer should be treated according to the same standard! Judged by any or all of these tests, can it be seriously maintained that the single tax is an equitable form of taxation.

Toward the close of the eighteenth century, there was a school of French writers, the Physiocrats, who first advocated the plan of a single tax on land—the famous *impôt unique*. It was considerably talked about until Voltaire turned his caustic pen upon them and wrote the celebrated essay *L'homme à quarante écus*—the man of forty crowns—, one of the most effective bits of mordant sarcasm

ever written. Voltaire pictured the position of the French peasant toiling laboriously, amid conditions of unspeakable distress, but succeeding in getting from the soil a product equivalent to forty crowns. The tax-gatherer comes along, finds that the peasant can manage to keep body and soul together on twenty crowns, and takes away the other twenty. Then the peasant meets an old acquaintance, originally poor, who has been left a fortune of 400,000 crowns a year in money and securities. He rolls along the highway in a six-horse chariot, with six lackeys, each with double the peasant's income; his *maitre d'hôtel*, gets 2000 crowns salary and steals 20,000; his mistress costs 80,000 crowns a year. "You pay of course half your income, 200,000 crowns to the state?" asked the peasant. "You are joking, my friend", answered he, "I am not landed proprietor like you. The tax gatherer would be an imbecile to assess me; for everything I have comes ultimately from the land, and somebody has paid the tax already. To make me pay would be intolerable double taxation. Ta-ta, my friend; you just pay your single tax, enjoy in peace your clear income of twenty crowns; serve your country well, and come once in a while to take dinner with my lackey. Yes, yes, the single tax, it is a glorious thing." This little picture, perhaps, did more than all else to nullify the efforts of the Physiocrats.

We shall later discuss the effects of the modern single tax on the farmer, but the principle underlying Voltaire's thought is equally applicable here. On what grounds of morals or justice shall the land-owner be singled out for taxation?

We have seen that the theory of natural rights is not adequate; we have learned that the principle of opportunity does not correctly portray the relations of the individual to the state. Even if the theory of unearned increment were true, it would not by any means justify the single tax on land values. In the first place, land values do not always or necessarily increase; and, secondly, there are a great many other values which increase mainly by the operation of forces which the owner of the property neither creates nor controls.

Land values do not always or necessarily increase. Thus, in the testimony given before the Rapid Transit Commission in the city of New York in March, 1895, one of the witnesses spoke of several long avenues being lined with the graves of property owners. What did he mean? Simply that ten, or twenty, or thirty years before, cer-

tain individuals had invested in the land, in hope of a rise in value, just as people invest in bonds or stocks or other securities. Instead of values rising, however, they remained stationary or even decreased; while, in the meantime, the accumulated taxes and assessments upon this nonproductive property completely ruined many of the investors. It is indeed true that in most growing cities land values in certain localities will increase; but it is equally true that there are always sections in such cities where, for obvious reasons, land values decrease. These facts are familiar to all observers in large cities. Moreover, in some European countries the rental value of the land, as a whole, is less to-day than it was a few decades ago, owing to transatlantic competition. The tax on land value would there yield only a precarious revenue.

More important still is the fact that even though land values often increase, similar increase in value is not by any means confined to land. Let us ask anyone whose mind is not befogged by the mist of erroneous enthusiasms: Who are the rich men of the world to-day? How has by far the greater part of our huge individual fortunes been acquired? Let us study the way in which men have become millionaires, especially in the United States. The usual cause is some fortuitous conjuncture of events, some chance happening due to no one's labor, but to a turn in the wheel of fortune—call it speculation, call it luck, call it by any name we will. How have most of the fortunes in Wall Street been made? Who is responsible for the increased value of investments? Who can say that the successful manager of the ring, the corner, the pool and the trust has worked out his salvation through his own industry? Land speculation is only a part of the sum total. If it be claimed that the fortunate speculator deserves his fortune because of his sagacity and foresight, why deny these attributes, at least in part, to the landowner? It can, of course, not be denied that wealth has been acquired by thrift and industry; but it remains true that most of the very large fortunes that strike the common observer are due to these incalculable turns in the wheel of fortune, and that the so-called unearned increment of land values forms only a portion of these total gains.

Value is a social, not an individual phenomenon. If social environment gives a value to bare land, the same social environment, by increasing the demand for other commodities, may at least in part

help to augment their value. It is indeed true that if we contrast land with concrete commodities that can be multiplied at will, the difference seems to be profound. Increased demand may lower, not increase, the price of the latter by reducing cost of production. But what the single-taxers forget is that property consists of, and income is derived from, not only concrete commodities, but services, relations and privileges of all kinds,¹ where increased demand, outstripping any corresponding decrease in the cost per unit of producing a greater supply, is primarily responsible for the increased value. A newspaper in a desert is worth nothing; a newspaper in a town is worth something; a newspaper in a city is worth still more. The newspaper is in part the product of labor, but the greater demand increases the value. A milk-route also is more profitable in a city than in a village. If it be said that land differs from all these in that it is a monopoly the answer is irresistible that if there is any one thing which distinguishes the modern age, it is the development of economic monopolies of all kinds. So important, indeed, have these become that modern economic theory has been compelled to supplement the old doctrine of value which was based on the assumption of free competition by a newer and more comprehensive theory, especially applicable to all these modern forms of monopoly price. Many of these monopoly profits cannot be reached by a tax on land values.

On what possible theory of justice, then, shall we tax the man who has invested \$100,000 in land which the next year appreciates fifty per cent; and, on the other hand, exempt the man who has invested \$100,000 in the stock of the Sugar Trust, which the next year may also enhance fifty per cent? Why should the earnings invested in land be taxed and the earnings invested in any corporate security be wholly untaxed?

It might, indeed, be claimed that a railway stockholder will be affected by a tax on the land owned by the corporation: but it is difficult to see how a railway bondholder can be reached by any tax on land values except in so far as the ultimate security for his debt may be affected. As the bonded indebtedness of the railways to-day far exceeds their capital stock, it appears that, even in the case of these

¹ Seligman, *Principles of Economics*, 5th ed. (1912), §§84, 113.

industries whose increasing values are largely due to the influence of the community, the majority of investors would scarcely be touched. In the great mass of industries, of which the Sugar Trust is an example, where the land owned by the corporation is of exceedingly small consequence as compared with its other assets, it is plain that a tax on land values would not reach even the stockholders or the owners proper. Almost every industry, moreover, is dependent for its increasing profits upon the development of the community, that is, upon the increasing demand for the product. Land rises in value because there are more people who want to occupy that land; the earnings of a city newspaper increase chiefly because there are more people who want news. In each case the increased returns are due primarily to social causes; and while a larger newspaper indeed costs more to produce, while more land does not, yet so far as actual profits are concerned, the distinction between them, for all practical purposes, is one only of degree, not of kind. To confiscate the capital invested in land with the chance of the land either falling or rising in value, while exempting absolutely the capital invested in corporate or industrial securities, is but a travesty of justice. It will be impossible to convince the common people that so-called unearned increments are confined to land. As a matter of fact the "unearned increment" of land is only one instance of a far larger class.

So far as a man receives special opportunities from the community, which undoubtedly increase his ability to pay, they should be taken into account in framing any scheme of taxation. And since the rapid growth of modern towns brings into strong relief the appreciation of site values which are due primarily to the growth of the community itself, it is not only justifiable but eminently desirable that a part—and a large part—of the revenues should be raised from a tax on land values. But let us not single out one special opportunity, because it strikes the eyes of urban observers, while we neglect all the other opportunities which are equally, or almost equally, the result of social forces. While some kind of a tax on land values is a legitimate part of a tax system, the single tax on land values is unjust; first, because opportunity is not the only element that must be taken into account in framing a tax system; and, secondly, because, even though it were, revenues from land are by no means the only form of

the results of special opportunity. The single tax is unjust because it is exclusive and unequal.

Even though the single tax, however, were theoretically just, it would not follow that it is desirable. Let us, therefore, come to the final part of our inquiry.

4. Economic Defects

These considerations which have often been overlooked, may be discussed from three points of view: first, the economic effect of the single tax on poor communities; second, the economic effect on farmers and the agricultural interests in general; third, the economic effect on rich communities.

In the first place, what would be the effect on poor communities?

In such cases the taxable property of the community consists principally of the often dilapidated farm houses erected on the land; of the tools, implements and beasts of burden used for tilling the land; and of the personal effects and money that belong to the farmers. Even making due allowance for the relative poverty of the community, it may be said that the great mass of their possessions therefore, consists of personalty. In so far as there is any real property at all, it is only to an exceedingly slight extent composed of land values. How then, it may be asked, can taxes be raised in a community like this? How can the roads be maintained, the school houses be kept up, and the other improvements be effected? Since land values are insignificant, a tax imposed on an insignificant basis must be insignificant. In fact it may be said that a total confiscation of the land values would not suffice to defray any considerable part of the necessary expenditures. If we take any of the assessors' reports in the less wealthy and not rapidly growing American states, it will be found that, contrary to the conditions of the rest of the country, the assessed personal property far exceeds in value the total assessed real estate. For instance, in 1890 personalty was to total realty in Montana as 58 to 55 millions of dollars, in Wyoming as 20 to 13 millions, in New Mexico as 28 to 15 millions. Compare these figures with the older sections, as New York or Pennsylvania, where the proportion was as 382 to

3,404 millions and 618 to 2,042 millions respectively.¹ In 1904, the date of the last available statistics, the proportions were about the same. Taxable personalty was to realty in Montana as 107 to 95 millions, in Wyoming as 28 to 18 millions, in New Mexico as 26 to 16 millions; but in New York as 686 to 7,051 millions and in Pennsylvania as 200 to 3,476 millions. The estimated true values were as follows: Montana, as 418 to 328 millions; Wyoming, as 197 to 133 millions; New Mexico, as 177 to 154 millions; New York as 5,617 to 9,151 millions; Pennsylvania, as 4,882 to 6,593 millions. If we are to abolish not only the tax on personalty, but all that part of the tax on realty which is not drawn from land values,² it can easily be seen how difficult it would be to carry on government in these sections.

What is true of poor communities as a whole applies also to the poorer sections of a rich community constituted largely or almost entirely of an agricultural population which is not rapidly increasing in numbers or wealth. The single-taxers themselves claim that land values amount to practically nothing in the farming districts. We shall see below the fallacy in this general contention; but so far as the community is a poor one there is undoubted truth in the statement that land values are trivial. In the testimony taken before a recent tax commission of Massachusetts, one of the single-taxers who was testifying as to the situation in certain rural townships was asked the question: How will it be possible for this poor town, in which there is very little land value, to raise its taxes? The witness was compelled to reply that it would be impossible for the community to do so, and he suggested that the expenses of the poor communities should be defrayed in large part from the revenues of the rich communities.³

This proposal is not easy of accomplishment; for with the American theories of local government, it would be difficult to induce certain sections in the community to assume the burdens of other sections. We are all acquainted with the continual bickerings in our state taxation, due to the efforts of the richer counties to escape paying

¹ These figures are taken from the census reports of 1890. See *Abstract of the Eleventh Census*: 1890 (1894), p. 195.

² Census Report: Wealth, Debt and Taxation, 1907.

³ Cf. Hearings relating to Taxation, 1893, pp. 185-188, and Report of the Joint Special Committee on Taxation, 1894-1, p. 38.

more than their proportion of the general state taxes; and we have seen the discontent aroused in 1894 by the attempt in the shape of the federal income tax to make certain wealthy sections of the country pay a disproportionate part of the revenue of the national government. Where these efforts have given rise to so much dissatisfaction, it is obviously improbable that the purely local expenses of any community will be defrayed by the efforts of other communities. While it is indeed true that the general state government has—and very properly—in recent years constructed highways and built hospitals, and while even according to our present system school taxes levied according to wealth are sometimes, in part at least, distributed according to population, this tendency, however desirable in itself, has well-defined limits. To a very large extent, at least, it will probably continue to be true that in purely local matters every county and town must, stand on its own feet. But if the single tax is unable to defray even the local expenses of a poor community, not to speak of its share of general state or federal expenses, it is clearly beyond the realm of practical politics. In poor communities, unless rapidly increasing in population and resources, the single tax would be a somewhat precarious reliance.

Let us consider, next, what would be the effects of the single tax on farmers in general. One of the claims of the advocates of the system is that it would relieve the farming population of the burden of taxes now weighing upon them. A careful consideration of the facts shows, however, that this claim is unfounded, and that, on the contrary, the result of the single tax would be to make the farmers pay more than they are paying to-day.

In only a few states is a distinction made in the assessments between land and improvements on land. Let us take, as a typical instance, Ohio county in West Virginia, in which the city of Wheeling is situated. In the auditor's report for 1892, we find the following figures:¹—

¹ These figures are subject to some qualification because of the inclusion of the value of oil leases in the personal property. But the corrections would probably not suffice to alter the conclusion.

	OHIO COUNTY	ENTIRE STATE	PROPORTION OF OHIO COUNTY Per cent
Value of buildings on lots,	\$8,554,010	\$22,840,511	
Value of buildings on lands,	671,795	14,371,855	
Total value of buildings,	\$9,225,805	\$37,212,366	25
Value of town lots without build- ings,	4,409,152	14,453,321	
Value of land without buildings,	1,678,962	95,771,281	
Total value of all land without buildings,	\$6,088,114	\$110,224,502	5½
Total value of lands, lots and buildings,	15,313,919	147,685,972	10⅓
Value of personalty,	6,187,710	51,707,093	12
Total assessments,	21,501,629	198,959,920	10½
Population,	41,000	763,000	5¼

In other words, whereas Ohio county then paid ten and one-half per cent of all taxes, and would have paid about the same if real estate alone were taxed, had the single tax been introduced it would have paid only five and one-half per cent of the total taxes, or about one-half of what was actually the case. The corresponding figures for 1908 were 9.9 per cent on total valuation, 9.8 per cent on real estate alone, and 6.8 per cent on land values alone. If the large towns would pay so much less, of course the farming districts would have to pay so much more. The improvements in the towns are worth more than the value of the bare land; while in the country districts the reverse is true.

As another example let us take California. In the comptroller's report for 1893, we find the following figures:—

COUNTY	VALUE OF REAL ESTATE (i.e. bare land)	VALUE OF IMPROVE- MENTS ON REAL ESTATE	RATIO OF LAND VALUES TO TOTAL REAL ESTATE Per cent
Colusa,	\$10,649,318	\$1,283,265	89
Merced,	11,222,179	1,037,103	92
Tulare,	17,258,512	2,327,705	88
San Francisco,	193,872,645	82,584,775	70
Total state,	757,980,207	242,388,163	76

We thus see that while in the city of San Francisco improvements equalled thirty per cent of the total real estate value, in some of the country districts improvements were only ten or fifteen per cent of

the total. Taking the state as a whole, land values equalled seventy-six per cent of all real estate, while in San Francisco land values were only seventy per cent of all real estate. To levy the single tax would, therefore, make San Francisco pay less, and some of the country counties far more, than at present.

Again, let us call attention to the report of the Commission on Valuation, made in 1892 to the Pennsylvania Tax Conference, which is probably the most careful attempt made up to that time to distinguish land values from improvements. We find the following figures:—

	VALUE OF LAND	VALUE OF IMPROVEMENTS
Philadelphia county,	\$357,007,936	\$646,244,284
Purely agricultural land in Philadelphia county,	21,610,429	3,813,605
Entire state, all land,	1,881,334,522	1,754,525,949
Entire state, agricultural land,	725,485,439	245,494,072

The proportion of land values to total valuation of all property was in the county of Philadelphia, thirty-six per cent; in the agricultural counties of Sullivan and Greene, eighty-one per cent and seventy-five per cent, respectively; and in the whole state, fifty-two per cent. The Commission concludes: "As a rule, in agricultural counties the land values are the greatest, as would be expected; while in manufacturing counties and those having large cities, the value of the improvements is equal to that of the land, or greater."

Let us now choose some Western states. In the report of the auditor of Colorado for 1894 we find the following figures:—

Value of agricultural and grazing land, irrespective of improvements	\$36,907,810
Value of improvements	7,492,022
Value of town and city land, irrespective of improvements	63,080,205
Value of improvements	34,788,941

In other words, in the towns improvements constituted about one-third of the total values; whereas in the country, improvements were only about one-sixth of the total.

As to Montana we find, in the report of the Board of Equalization for 1894, the following figures :—

Value of city and town lots	\$29,362,754
Value of improvements on same	15,156,115
Value of land	17,493,680
Value of improvements on same	7,287,887

In Lewis and Clarke county, the home of the largest city in the state, the total value of all land was \$11,397,860; that of improvements, 85,269,300. In some of the agricultural or grazing counties, however, the value of the land was far higher in proportion to the improvements; in Meagher county, for example, land was \$1,821,385, while improvements were only 8629,054. Most striking of all, in this very same county, in the case of agricultural property, the figures were: land \$1,218,474, improvements \$266,824; while in the town lots the figures were: bare land \$602,911, improvements \$362,375. In other words, not only are improvements proportionately less in the rural counties, but even in these rural counties by far the larger proportion of the improvements are found in the little towns, as compared with the farming or grazing land proper.

In the state of Washington, the State Board of Equalization agreed on the following figures for 1893:—

Value of land exclusive of improvements	\$ 87,527,472
Value of improvements	8,970,908
Value of city and town lots	101,889,377
Value of improvements	29,585,930

In Utah, Salt Lake county, the seat of the chief city, assessed, in 1893, real estate, exclusive of improvements, at \$31,347,670; improvements, at \$9,483,141. In rural counties like Rich county and Cache county, the figures were, in the one case, realty \$527,666, improvements \$81,445; in the other case, realty \$3,771,810, improvements \$915,614. Here again, the more densely settled the township, the greater in proportion is the value of the improvements.

To choose more recent figures, the North Dakota state board of equalization fixed the valuation for 1910 as follows:

Land values	\$146,654,672
Improvements	9,909,143
Town or city lots	11,066,982
Improvements	16,959,192

Almost equally remarkable figures are reported for Wyoming by the Commissioner of Taxation for 1909-1910:—

Land values	\$40,029,518
Improvements	6,338,712
Town lots	12,836,541
Improvements	14,324,496

The same is true in the Eastern states. Thus in New Jersey, in 1911 in certain counties the land values were greater than the value of the improvements:—

COUNTY	VALUE OF LAND	VALUE OF IMPROVEMENTS
Gloucester	10,474,115	8,574,078
Somerset	9,863,204	7,868,530
Salem	8,870,393	4,062,473

While in the cities the reverse was true.¹

CITY	VALUE OF LAND	VALUE OF IMPROVEMENTS
Camden	\$18,610,635	\$ 30,278,706
Newark	\$134,764,835	150,144,175

In all these cases—and they might be multiplied—it is seen that the value of the improvements is, on the whole, greater in the urban than in the rural districts.² To many this will be a surprise, because they

¹ These figures were fortunately not available when Mr. Shearman stated (*Natural Taxation*, ch. 12) that "in no large city are buildings worth more than 50% of all real estate."

² The only official examination of this matter is found in the government report entitled *Taxation in Country and City: An Examination of the Distribution of Property Taxes as shown by Official Statistics of Assessed Valuation*. U. S. Dep'tm't of Agriculture, Division of Statistics, Misc. Series, 1900. This examination covered the District of Columbia and the sixteen states which assessed land values separately. The conclusion was that in a majority of the cases land values were proportionately greater in rural than in urban districts. The figures are printed and commented in

are apt to be blinded by the immediate facts about them. The single-tax advocate generally lives in the city, and sees before him a city lot, each foot of which will sell for hundreds or perhaps thousands of dollars. The town lot, he is apt to exclaim, is worth hundreds of times as much as a piece of land in the agricultural districts. This is perfectly true; but it proves nothing as to the comparative ability of their owners to pay taxes because it overlooks a point of the greatest importance. When we compare urban with agricultural land values, we do not compare foot with foot, but total units with total units. Thus, an acre of land in New York City may be worth a thousand times as much as an acre of land in the country; but it must be remembered that there are many thousand times as many acres in the country as there are acres in New York City. A lot in New York may be worth ten thousand dollars, but a farm of five hundred acres in the country may also be worth ten thousand dollars, exclusive of improvements. The farmer who has paid ten thousand dollars for his farm, and has then proceeded to improve and cultivate it, will not be satisfied, when the assessor taxes him and exempts all the business men and house-owners in the adjoining village, with the statement that the owner of a ten-thousand-dollar lot in New York City pays a hundred times as much per front foot. He will be apt to reply that it makes no difference to him whether the New Yorker's ten thousand dollars is taxed; but that he objects to his own ten thousand dollars being taxed, while his neighbors in the village, who are far richer than he, pay nothing at all. In short, while attention is directed to the fact that land values are undoubtedly less per acre in the country than in the city, it is forgotten that the number of acres in the country is so many times larger than the number of acres in the cities that the total land values in the country will form a substantial part of the whole. Moreover, we have seen that the value of improvements is relatively greater in the towns than in the country.¹ In the country the farm-

Max West, "City and Country Taxes," in *Political Science Quarterly*, vol. 14 (1899), pp. 486-499.

¹ The single-taxers claim that much of the present value of farmland—due to fencing, draining, etc.—should be classed as improvements. But, as we have pointed out above, it is quite impossible in practice to distinguish improvements on the land from improvements in the land. No attempt is ever made, in assessing land values, to differentiate between the two.

house is built for a few hundreds or thousands of dollars; in the city the fine stone mansion or steel skyscraper is erected at a cost of hundreds of thousands or millions of dollars.

If, therefore, all improvements were to be entirely exempted, the result of a tax on land values would be to make the farmers pay more than they do at present. It is not denied that as between the general property tax as actually administered and a tax on real estate only, the farmer would be benefited by the adoption of the latter. For personal property, as has been elsewhere explained,¹ is assessed chiefly in the agricultural communities.

The remedy, however, consists not in taxing land values alone, but in striving to reach the owners of personal property by some other method than that of the general property tax. But even assuming that this reform cannot be effected, what the farmers would gain by the abolition of the personal property tax, they would lose and more than lose, as we have seen, by the total exemption of all improvements.² As long as the United States remains pre-eminently an agricultural community it is not likely that the single tax will become a practical question.³

Thirdly, and finally, let us consider the economic effects of the single tax on rich urban communities.

It is contended by the single-taxers, with special reference to the advantages claimed as likely to accrue to the tenement house popula-

¹ Supra, p. 18.

² This conclusion is confirmed by Dr. West, after analyzing the official statistics, in the article cited on the previous page, in which he also states that "the exemption of intangible personalty alone would in a majority of cases relieve urban communities at the expense of rural districts; but that the exemption of both tangible and intangible personalty would benefit the rural districts in three-quarters of the commonwealths."

³ In a pamphlet entitled *Peoples Power and Public Taxation*, written by A. D. Cridge and W. S. Uren, published by the Fels fund and distributed in 1910 to every voter in Oregon, some remarkable figures are presented as to the effect of the adoption of a land-value tax in lowering farmers' taxes. The figures are worthless because of the naive assumption that the naked land value of tillable lands (those actually in cultivation) is no greater than that of the non-tillable lands. In other words, if a piece of good land is cleared, its naked land value, according to this view, would be no greater than that of an adjoining rocky hillside which is not put under cultivation because it would not be worth while. It is such arguments that are spread broadcast to the general public!

tion of the large cities, that the introduction of their system would bring about the social millennium. It is supposed that if we abolish the tax on improvements, that is, on houses, the vacant lots will be built over as if by magic, rents will fall, the wages of the workmen will rise, and a period of general prosperity will be ushered in.

It may be asked, in the first place, where all this additional capital which is to be invested in houses is coming from. There is no fund floating about in the air which can be brought to earth simply by the imposition of the single tax; the amounts to be laid out in houses must be taken from the capital now invested in some other form of productive enterprise. The amount of loanable capital in the money market at any one time is definitely fixed. Even deposits in banks are already invested, for the most part, in mortgages or in corporate securities; that is, they are already utilized for productive purposes. What is put into new houses will, therefore, simply be so much taken away from other productive employments.

It may be asked next, how are the rents of our tenement-house population so suddenly to fall? The theory that a tax on houses is shifted to the consumer or tenant is true enough, provided that the tax be exclusive—that is, provided that nothing be taxed except houses. If, on the contrary, the house tax is simply a part of a wider system of taxation; if other forms of property are assessed, like investments in land and in personal property; if a corporation tax is imposed to hit the investors in corporate securities; or if we have an income tax which is to reach general profits,—in all these cases the very conditions of the theory according to which a house tax is shifted disappear.¹ To the extent, then, that the house tax is not a single tax, the tendency for it to be shifted will be diminished. The only result, in this direction, of the single tax would be, as a matter of fact, that people would pay their rent to the state instead of to private individuals. We hear a great deal about the unoccupied lands held for speculative purposes in large cities; but it is a fact that south of Fourteenth Street in the city of New York—the home of the major part of the tenement-house population—not seven-tenths of one per cent of the building lots lie idle, and of these some lots are occupied as coal yards, and some adjoining factories or large establishments are used

¹ See *The Shifting and Incidence of Taxation* (3d ed.), pp. 292, 293.

for storage purposes.¹ How then would the single tax relieve the inhabitants of the slums? They will not go to the suburbs where there is an abundance of land, for the same reason that they do not go there now. Rent in the suburbs is at present relatively less than in the slums, which are nevertheless crowded. The average workman plainly prefers to be near his work, and to enjoy the social opportunities of contact with his fellow-workmen, evenings as well as daytime. Above all, without cheap and rapid transit, he cannot afford the expenditure of time and money, necessary for conveying the various members of his family to and from the suburbs. The single tax, however, would not alter conditions of transit. Even assuming, therefore, that there was some magic fund to cover the suburban lots with houses, the rents in the slums would not be affected to any appreciable degree.

Somewhat akin to this is the question of exempting improvements from the local tax on real estate, as a part of the whole scheme of taxation. Even here, however, it is scarcely open to doubt that the claims made by its defenders as a cure for urban congestion of population are greatly exaggerated.² In small towns where it is customary for the owner of the land also to own the buildings, it makes indeed, very little difference whether the tax is imposed in a lump sum on both land and buildings, or whether the same amount is paid by the owner on his land with the buildings exempted. The chief difference is to be found in the larger cities, where there is a variation in the proportion of the value of the structure to that of the land. Where the building value is sixty per cent of the total, as in the suburbs of a large city, compared with forty and thirty-five per cent in the crowded districts, it might seem that a remission of the tax on improvements would tend to foster the construction of buildings in the suburbs and thus to reduce rents all around and in this way lessen congestion. But entirely apart from the considerations adduced in the last paragraph as to the relative inelasticity of rents in the slums, it

¹ In 1911 there were south of Fourteenth street in New York 467 vacant lots, with a value of \$9,844,910 out of a total number of 24,203 parcels of real estate with an assessed valuation of \$1,319,866,666. See the *Report of the Commissioners of Taxes and Assessments* for 1911.

² See especially *Taxation of Land Values in American Cities, The Next Step in Exterminating Poverty*. By Benjamin C. Marsh, New York, 1911.

may be pointed out that if improvements are wholly exempt the tendency would obviously be for landowners in the crowded slums to erect still higher tenements, which would have to return only the interest on the lessened investment, and which would therefore again increase congestion. In point of fact, suitable transportation facilities, proper housing and building laws, and adequate credit conditions exert a far more important influence on congestion and house rents than does any system of exemption of improvements from taxation.

The exemption of improvements from the local real estate tax has been tried especially in Australasia and in Canada. In Australasia the results are inconclusive, and the real importance of the reform lies not so much in the exemption of improvements as in the substitution of capital values for rental values in the assessment of land.¹ In Canada several cities and provinces have in recent years exempted buildings in whole or in part, from the real estate tax.² The advantages of the system, however, have not been those advanced by its advocates. In Winnipeg and Vancouver, for instance, house rents have not fallen, but risen; and speculation at large, far from being abated, has increased enormously. This is, of course, due to the fact, that taxation, even as a whole, is of incomparably less importance than the economic forces which make for the growth of the community. But it is quite idle to speculate upon what the result would have been if the improvements had been taxed; we are told that little difference can be noted between the Canadian towns where improvements are exempt and the American towns across the border, where they are taxed.³ The true reason why there has been so little opposition to the exemption of improvements in Canada is that the tax rate, in the face of an enormous increase of land values which is naturally found in all rapidly growing communities, has been kept very low. Joined to this is the sentiment against absentee ownership, which is often apt to be strong in any young community, as is evidenced by similar

¹ For a discussion of this cf. *infra*, p. 530.

² For a full and accurate statement of all the facts of the case see chap. viii. of *Provincial and Local Taxation in Canada*, by S. Vineberg, New York, 1912. This is no. 128 of the Columbia University Series in *History, Economics and Public Law*.

³ See especially F. C. Wade, *The Single Tax Humbug in Vancouver*. Vancouver, 1912. Wade contends that the other Canadian "non-single-tax" cities have increased still faster than Vancouver.

movements toward the exemption of improvements that are found in the early history of prosperous American states.¹ The situation in Canada is the same as that in Australasia.² As soon as the normal conditions of a long established community present themselves, with only a gradual and moderate increase of prosperity, but with the rapidly growing expenditure of a complicated economic life, the real problem will present itself, as it is, for instance, found in the cities of the Eastern United States.

So far as it is true that land in or near cities is held largely for speculative purposes, the difficulty can be met by the enforcement of now existing laws, and by the imposition of a special or a higher tax on unoccupied lands in or near the city. The tax laws of the American states everywhere instruct the officials to assess property at its true or selling value, but it is notorious that unimproved lots are, as a rule, considerably undervalued as compared with those on which improvements have been erected. If, then, we simply enforce the laws as they exist, it will be more difficult for anyone to hold land too long on speculation. If in addition we impose a special tax or a higher tax on unimproved city lots, it will be still more difficult to do so. It is thus evident that the desired end may be accomplished without invoking the aid of the single tax.

¹ In the territorial days of Iowa, for instance, improvements were exempted for a time in 1840, and a few years later an important discussion took place in which the disadvantages of the unearned increment accruing to non-settlers and especially to absentee speculators were fully set forth, with reflections on the dangers of land monopoly. As the country was built up, however, absentee ownership diminished in its relative importance and the demand for the exemption of improvements disappeared. Cf. J. E. Brindley, *History of Taxation in Iowa*, 1911, i., pp. 23-28, and the interesting editorials from contemporary newspapers, pp. 370-371.

Still further back, namely in the seventeenth century we find a similar movement although for somewhat different reasons. In 1652 Director Stuyvesant of New Amsterdam proposed a tax on unimproved lands only. The bill was drawn and would have passed but for the necessity of a larger revenue from more general sources, due to the war between Holland and England. See O'Callaghan, *Laws and Ordinances of New Netherlands*, 1638-1674, sub anno. Two years later it was proposed that vacant lots in New Amsterdam, Beverwyck and other towns, which had been granted for building purposes, should be sold at an official valuation "in case the present owners and proprietors either neglect or are disinclined to build on aforesaid vacant lots." *Ibid.*, p. 181.

² Cf. *infra*, chap. xvii, sec. vi.

Furthermore, so far as the idea of unearned increment is really applicable to urban real estate, the problem can be solved not only by extending the American system of special assessments which takes for public purposes, and precisely at the time of its creation, the increased value which may properly be said to be due to any positive action on the part of the community; but also by imposing an additional increment-value tax, which will take for the community a part of the increased value caused by the silent growth of the community itself.¹ By enforcing the tax laws as they exist to-day, by extending the law of special assessments to all the cases which are properly referable to the principle of benefits, by levying a special tax on unbuilt city lots and by adding to the existing code of taxation some form of increment-value land taxes, we shall in all probability do as much as is under existing conditions either practicable or equitable.

IV. Conclusions

We have studied the single tax from different points of view. It is undoubtedly true that the single-tax agitation has been of great value. It has in some countries served to direct attention to the abuses of a mediæval land system. It has in the United States helped to disclose the shortcomings of the antiquated general property tax. It has everywhere done yeoman's service in emphasizing the question of unjust privilege. But none the less we have found ourselves unable to accept its demands. We have seen that the single tax is defective fiscally, politically, morally and economically. We have learned, first, that it would be inelastic, and that it would intensify the inequalities resulting from unjust assessments; secondly, that although itself proposed chiefly from social considerations it would prevent the government from utilizing the taxing power for other financial purposes and that it would divorce the interests of the people from those of the government; thirdly, that it would offend against the canons of universality and equality of taxation and that it would seriously exaggerate the difference between profits from land and profits from other sources; and finally, that it would be entirely inadequate in poor communities, that it would generally have an injurious influence on the farmer, and that even in the large urban centres it would exempt large sections of

¹ As to this cf. *infra*, pp. 491 et seq., 50S et seq.

the population without bringing any substantial relief to the poorer classes.

This is clearly not the place to discuss the wider claim of the single-taxers, that the application of their scheme would introduce the social millennium. Even as a method of tax reform, however, the project is, as we have seen, a mistaken one. Our system of taxation is far from being ideal, or even comparatively just. But whatever be the much needed reform and however desirable may be the addition of a tax on land values to existing revenue systems, it is not probable that either the common people or the student will accept a scheme which is at bottom palpably unjust, which abandons one of the fundamental theories of modern taxation—that of relative ability or faculty—and which seeks to put the burdens of the many on the shoulders of the few.